S. HRG. 98-737, Vol. 3

FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1985

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

HUMAN RESOURCES

FEBRUARY 7, 1984—HUNGER TASK FORCE REPORT
FEBRUARY 22, 1984—HEALTH
FEBRUARY 28, 1984—FAIRNESS AND EQUITY IN ECONOMIC AND BUDGET POLICY
MARCH 1, 1984—EDUCATION
MARCH 6, 1984—PRISON REFORM

AGRICULTURE

MARCH 8, 1984

Volume III

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HUNGER TASK FORCE REPORT

TUESDAY, FEBRUARY 7, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 9:38 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Grassley, Chiles, Biden, Johnston, and Metzenbaum.

Staff present: Stephen Bell, staff director; Jan Lilja, senior analyst for human resources group; and Michael Carozza, analyst for income security.

For the minority: Richard N. Brandon, staff director; and Alan Cohen, senior economist for social security and veterans.

Chairman DOMENICI. We are going to start. I understand a few Senators will be here from time to time. There are many hearings in the Senate today. As a matter of fact, this Senator has two others starting at 10, one of which is on acid rain, and I will have to leave for a little while.

Our three witnesses today are Dr. J. Clayburn LaForce, Jr., Director of the President's Task Force on Hunger; Mr. Robert Greenstein, Director of the Center on Budget and Policy Priorities, and Dr. Irwin Rosenberg, president of the American Society for Clinical Nutrition.

I want to thank you all for being here, and we will try to use as little of your time as possible.

I would like to make a quick opening statement, and then we will proceed with you, Dr. LaForce.

OPENING STATEMENT OF CHAIRMAN DOMENICI

One of the most important challenges facing our Nation is to make sure that no citizens go hungry. The American people are probably the most generous people who have lived together under one societal structure. I think history clearly reveals that. And they are firmly committed to helping those in need who cannot help themselves. That is why a report which indicates that there is hunger, or reports which indicate that there is hunger in a land of plenty obviously disturb this country.

PRESIDENT APPOINTS TASK FORCE

The President responded to these reports by appointing a task force to review programs that provide food assistance to the hungry, to recommend whatever improvements they thought were justified and necessary. That report is the focus of the hearing today, although not exclusively the entire subject matter.[1]

While all may not agree with some of the findings and recommendations of the task force report, it does provide us with a wealth of information. Other groups offer different perspectives on the hunger issue, and we will examine their reports, also. We ought to commend all of the individuals and groups who are contributing to this critical debate.

Many times in this committee we discuss matters that are not quite the subject of budget discussion. But this matter is a budget matter because when we set priorities, they are in broad dollars. It is easy to discern where we have been and where we are going with reference to our National Government's efforts.

So I think it is really not only something that we are doing, but something that is clearly within the purview of this committee's goals and objectives.

BENEFITS NOT TAKEN FROM MOST NEEDY INDIVIDUALS

I have been particularly concerned about charges that program reforms made as part of the effort to bring the Federal domestic budget somewhat more under control have contributed to the hunger problem. After a review of the changes made by the Congress and the President—and some of the changes clearly were not consistent with the President's desires, and vice versa—I am confident that we have not taken benefits away from the most needy individuals or families.

We may disagree about policy—we usually do on this committee—but we should not disagree about the facts. I want to review some of the facts as I understand them before we hear the testimony, and then we will proceed quickly to your testimony. Both of you are experts. As I review this history after 3 or 4 years here, supplemented by the last couple of decades, by way of historic background, I urge you to take issue, if you would like.

First, let us look at the funding history of Federal food assistance.

We have a chart up there of Federal expenditures for food stamps, child nutrition, and all of the other food programs. That chart shows that food assistance programs grew from under $2 billion in 1970 to $14 billion in 1980, $19 billion in 1983. [See chart 1, p. 5.] That is a 41-percent increase in spending just since 1980—now, that is nominal growth, but nonetheless an increase, and significant growth.

We should also look at spending in real dollars after we discount for inflation and we have a chart on that. [See chart 2. p. 6.] Even after the figures are adjusted for the rise in food prices, there is a 23-percent increase in Federal spending from 1980 to 1983. Now one might argue whether it is enough, but one cannot call that a cut or reduction.

Participation in food assistance programs is generally higher than it was 3 years ago. [See chart 3. p. 7.] According to figures from the departments that administer the programs, food stamp participation is not down—it is up by 2 percent; WIC participation is not down, but is up by 32 percent. School lunch and breakfast participation is down and we will talk about that shortly.

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[1] See p. 78.

Those overall figures, however, obscure one of the most important facets of the changes made over the past few years. Participation by the neediest individuals has increased, while participation by those relatively better off has decreased. [See chart 4. p. 8.] In food stamps, participation by families with incomes under 130 percent of poverty—and that is $12,821 for a family of four in 1982—increased by 16 percent from 1980 to 1982. Participation by those above that level decreased by 25 percent. One can argue about whether that is good policy, but I do not think one can dispute the facts.

In the school lunch program, children from the lowest income families receiving free or reduced-price lunches increased by 12 percent over the same time period. Participation declined among the relatively higher incomes, and that is shown in the chart.

The change in benefit dollars mirrors the change in participation. [See chart 5. p. 9.] More of our benefit dollars go to lower-income people, fewer to higher-income people. It is also a fact that average monthly benefits per person in the food stamp program and WIC program have increased over the fiscal year 1980–83 period. [See chart 6. p. 10.] They increased in current dollars, and they also increased in real—that is, the inflation-adjusted dollars.

FOOD INFLATION RATE IS DOWN

Now, we should all be concerned, without any question, as I indicated in my opening statement, about our neediest and hungriest neighbors and friends in America. But we should not forget the working man or woman who is trying to raise a family on $15,000 or $20,000 per year, because we brought inflation down so dramatically that the working family now spends about $75 per week on groceries. [See chart 7. p. 11.] If the food inflation rate that existed from 1977 to 1981 had continued, they would be spending about $94 for the same amount of food. Over a 1-year period, this family will save about $1,000 because of inflation coming down.

I think we have made some excellent progress in directing our food assistance to those most in need. There may be some who say we ought to spend more, but I do not think the facts indicate that we have directed the program toward the wealthy and against those in need. Quite the contrary. A number of administrative provisions helping families keep their food bills under control has caused us to make excellent progress in directing our assistance to those most in need.

We can and should do more. There is no question about it. We can correct the problems of the existing system to further assist those in need as identified in the task force report—and you will hear from the chairman of that group shortly.

We obviously cannot remove ourselves from budget constraints and ignore competing objectives. But within the imprecise arena of balancing these various demands, we had a great leader a long time ago, Thomas Jefferson, who had an argument with John

Adams at the start of this great Republic: the life of the feeder is better than that of the fighter. I agree with that.

[The following was received for the record:]

Federal Expenditures for Food Assistance Programs FY 1970—FY 1983

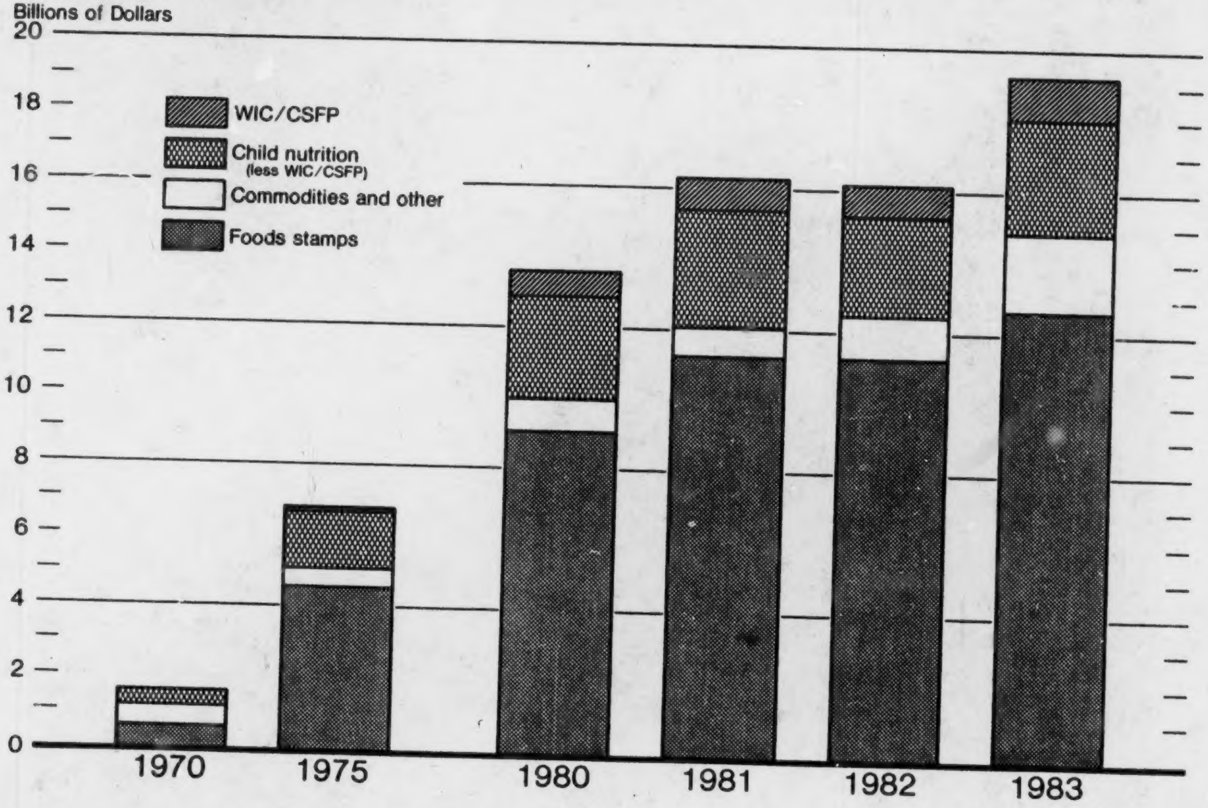

CHART 1

Federal Expenditures for Food Assistance Programs
FY 1970—FY 1983
(Constant Dollars, 1967 = 100)

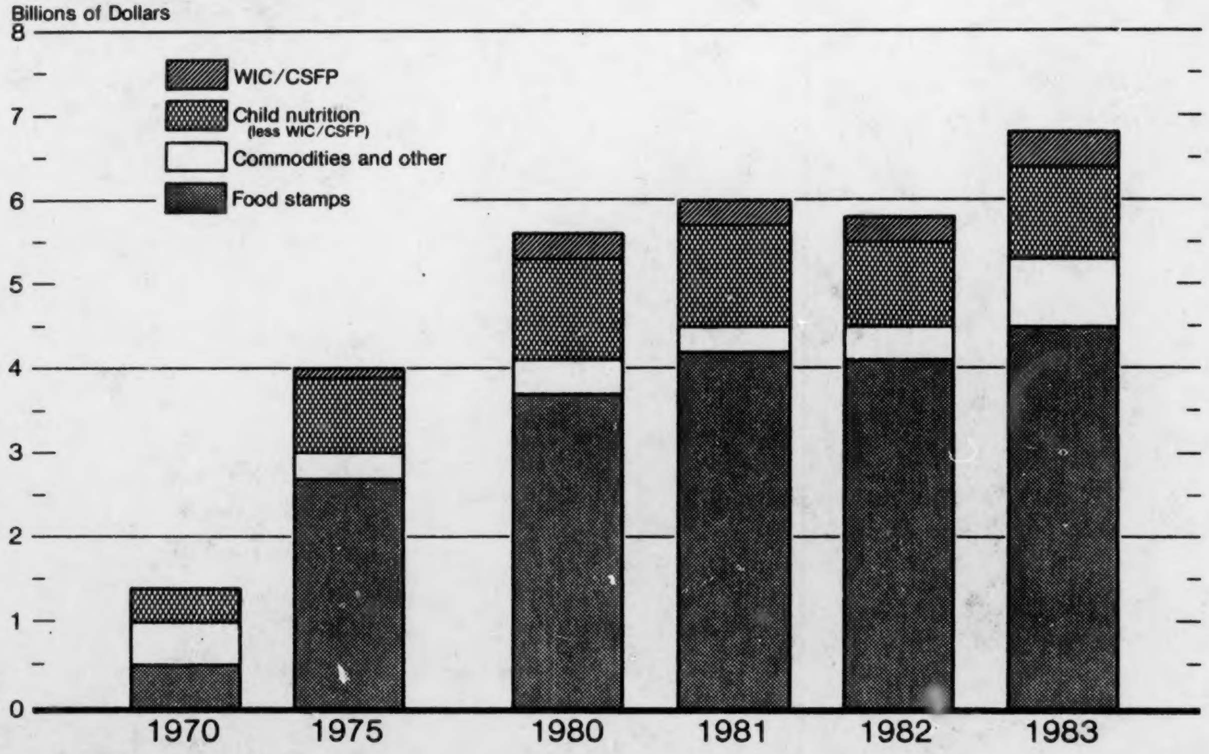

CHART 2

PARTICIPATION IN SELECTED FOOD ASSISTANCE PROGRAMS, FY 1970-FY 1983

(millions of persons)

	FY 1970	FY 1975	FY 1980	FY 1981	FY 1982	FY 1983	% increase FY 1980-83
Food Stamps......................	4.3	17.1	21.1	22.4	21.7[1/]	21.6[2/]	+2%
WIC............................	n/a	0.3	1.9	2.1	2.2	2.5	+32%
School lunch:							
Free..........................	0.4	9.4	10.0	10.0	9.8	10.3	+3%
Reduced-price..................	n/a	0.6	1.9	1.9	1.6	1.6	-16%
Paid...........................	21.5	14.9	14.7	13.3	11.5	11.2	-24%
Total....................	21.9	24.9	26.6	25.8	22.9	23.1	-13%
School breakfast:							
Free...........................	0.2	1.4	2.8	3.1	2.8	2.9	+4%
Reduced-price..................	0.1	0.1	0.2	0.2	0.2	0.2	0
Paid...........................	0.1	0.3	0.6	0.5	0.4	0.3	-50%
Total....................	0.4	1.8	3.6	3.8	3.4	3.4	-6%

1/ Includes Puerto Rico for 9 months of fiscal year.
2/ Excludes Puerto Rico.

SOURCE: U.S. Department of Agriculture, Food and Nutrition Service.

C H A R T 3

PERSONS RECEIVING FOOD STAMPS AND CHILDREN RECEIVING FREE OR REDUCED-PRICE LUNCHES BY POVERTY CLASSES, 1979-1982

(millions of persons)

	1979	1980	1981	1982	% increase, 1980-1982
Food Stamps					
Number of persons:					
Under 130% of poverty..................	14.737	17.169	18.260	19.941	+16%
130% to 185% of poverty................	2.742	2.803	2.871	2.087	-26%
Above 185% of poverty..................	2.818	2.367	2.291	1.795	-24%
Total............................	20.298	22.338	23.332	23.832	+7%
Free or Reduced-price Lunches					
Number of children age 5 to 18:					
Under 130% of poverty..................	7.142	7.562	7.684	8.470	+12%
130% to 185% of poverty................	2.437	2.257	2.196	1.975	-12%
Above 185% of poverty..................	2.944	2.562	1.863	1.550	-40%
Total............................	12.523	12.378	11.744	11.994	-3%

SOURCE: U.S. Bureau of the Census; unpublished tabulations. See, Current Population Reports, Series P-60, No. 141, Characteristics of Households Receiving Selected Noncash Benefits: 1982 (Advance Data from the March 1983 Current Population Survey), Government Printing Office, Washington, D.C. 1983.

C H A R T 4

DISTRIBUTION OF FOOD STAMP BENEFITS BY POVERTY CLASSES IN CONSTANT (1967) DOLLARS, 1979 - 1982

(1967 Dollars in Millions)

	1979	1980	1981	1982	% INCREASE, 1980 - 1982
Poverty Ratio:					
Less than 100%....	1,663	1,933	1,974	2,272	+18%
Less than 130%....	1,935	2,225	2,228	2,520	+13%
130% to 185%......	241	269	316	148	-45%
Above 185%........	273	208	184	142	-32%
Total............	2,450	2,702	2,651	2,810	+4%

Source: U.S. Bureau of the Census; unpublished tabulations. See, Current Population Reports, Series P-60, No. 141, *Characteristics of Households Receiving Selected Noncash benefits: 1982 (Advance Data from the March 1983 Current Population Survey)*, *Government Printing* Office, Washington, D.C. 1983.

CHART 5

AVERAGE FOOD STAMP AND WIC BENEFITS PER PERSON, FY 1980-FY 1983

	FY 1980	FY 1981	FY 1982	FY 1983	Percentage Increase FY 1980 - 83
Average food stamp benefits per person:					
In current dollars..............	$34.35	$39.49	$39.18	$43.02	+25%
In constant (1967) dollars......	$14.01	$14.76	$14.12	$15.30	+ 9%
Average WIC benefits per person:					
In current dollars..............	$25.48	$27.86	$28.79	$29.78	+17%
In constant (1967) dollars......	$10.39	$10.41	$10.37	$10.59	+ 2%

CHART 6

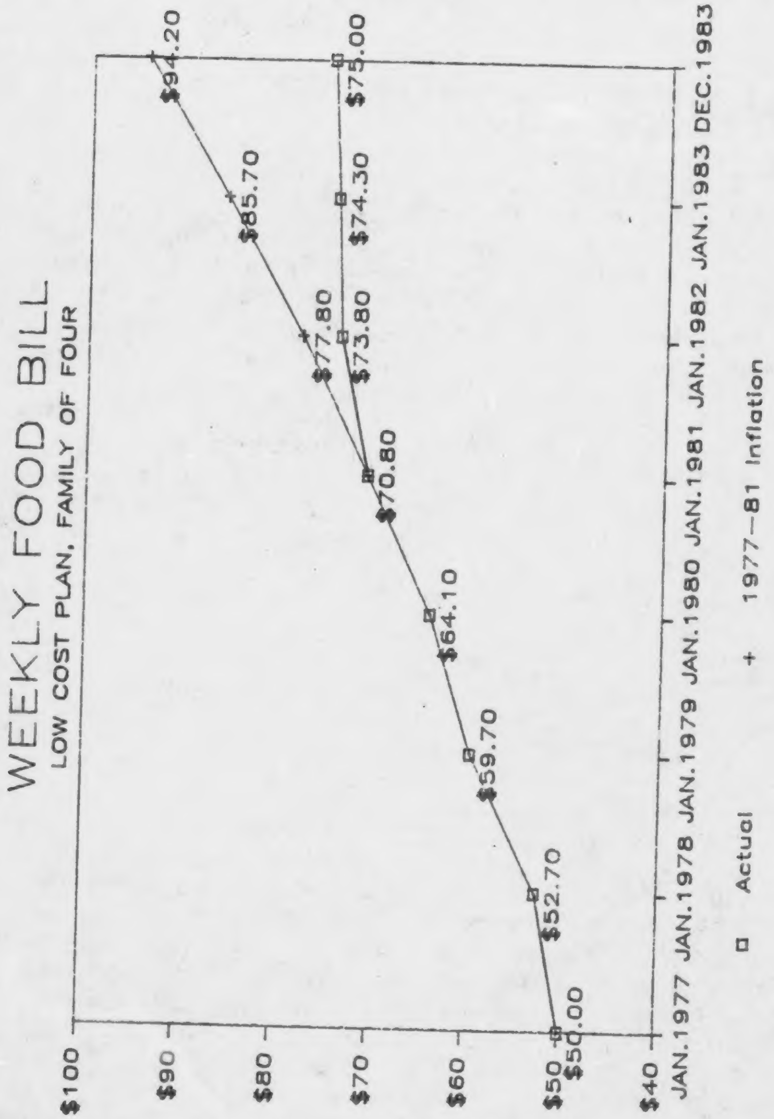
WEEKLY FOOD BILL
LOW COST PLAN, FAMILY OF FOUR
$100
$90
$80
$70
$60
$50
$40
JAN.1977
JAN.1978
JAN.1979
JAN.1980
JAN.1981
JAN.1982
JAN.1983
DEC.1983
$50.00
$50
$52.70
$59.70
$64.10
$70.80
$73.80
$74.30
$75.00
$77.80
$85.70
$94.20
□ Actual
+ 1977–81 Inflation

CHART 7

Chairman **Domenici**. Senator Metzenbaum.

OPENING STATEMENT OF SENATOR METZENBAUM

Senator **Metzenbaum**. Mr. Chairman, I do have a couple of opening remarks, not lengthy ones, but I want to say something is very disturbing to me. It is not your fault. It is nobody's fault. But maybe it is an indication of the way we are in America.

You are here, Senator Chiles is here, Senator Johnston is here, I am here. This committee is prepared to report. There are a few people in the audience. But when the Secretary of Defense was here—and I was not here, but I saw it on the tube—all the television is here, and there is a sense of excitement about it. How much are we going to spend on defense? When the Secretary of the Treasury was here, there was all the excitement about it.

It is rather saddening to realize that (a) we do not get as much of a turnout from even our own membership, and we get far less interest from the media, the press, when we are talking about such a pedestrian issue as people going hungry in America.

And it just sort of makes you feel—what the hell is it all about? Are we only interested in how many more nuclear bombs we have, or are we concerned about how many empty stomachs there are in America today?

And I just almost feel like shedding a tear, because nobody cares.

There is a report in the New York Times today, indicating the hunger is widespread and rising. There is unemployment in government policy, and we will sit here and play kind of a technical game as to whether the President's Commission or this other Commission—what are the real facts—did we go up in spending, did we go down.

I drove across the bridge coming in this morning, and I saw some fellow actually standing there, shivering in the cold. I do not think he cares about our reports. And there are a lot of people out there who are shivering and are cold and are hungry, but nobody cares.

And I just think that I will not take up the time of an opening statement, which I will put into the record. I want to say that this Senator is a pretty sad Senator this morning, to see the total indifference to an issue that obviously is not important.

What difference does it make if there are millions of Americans today who are going hungry? What do we care? Let us get on with the subject of whether we increase defense spending 5 percent or 17 percent.

It is pretty sad.

Thank you, Mr. Chairman.

[The prepared statement of Senator Metzenbaum follows:]

Prepared Statement of Senator Metzenbaum

Mr. La Force, in this report, you see no necessary connection between increased poverty and increased hunger; you deny that the demand for food is outstripping Federal and local efforts to supply it; you want to make participation in the food stamp program optional for the States; you see no connection between the increase in soup kitchens throughout the country and the failure of Federal programs to meet existing needs; you say budget cuts in food programs haven't hurt the poor; you say the number of hunger Americans can't be measured, and you say those who don't participate in Federal food programs do so by choice.

Mr. La Force, if this is supposed to be a comprehensive report on the problem of hunger in America, I'd like to be the first to nominate it for the Pulizer Prize in fiction.

For this report callously ignores the reality of hunger in America. It is nothing more than an election year document whose purpose is to whitewash the record of the Reagan administration on hunger.

Today, a major report on hunger was published. The report shows:

1. Hunger is widespread and increasing.
2. It's caused by Government policies.
3. Malnutrition exists in America.

If we accept this New England study it not only discredits your report—it stands as an indictment.

Indeed, 42 national social service and religious organizations are on record stating that your report would "on balance, make this tragic problem worse."

The truth is, that since Ronald Reagan became President, food programs for needy children, for senior citizens and for the poor—have been cut by a staggering total of $12 billion—and this was done at a time when the same administration was spending $11 billion to pay farmers not to grow food.

This administration, which first tried to tell us that ketchup was a vegetable has forced a thousand schools to close their school lunch program.

Three million youngsters no longer participate in the school lunch program. One million people have lost their food stamps. Nine hundred thousand children have been deprived of their school breakfasts. Hundreds of thousands of poor children in Head Start and day care centers have lost a daily nutritious snack.

The President's 1985 budget continues this onslaught against Federal good programs with current services cuts totalling $858 million in food stamps, child nutrition, and the WIC program.

And these cuts are being sought while the scandal of hunger in America continues to grow—The New England study.

The U.S. Conference of Mayors last month released a 20 city survey showing demand for food increased during 1983 in 95 percent of the cities surveyed. The average increase was 71 percent. Half the cities estimate that local agencies are not able to meet the demand for food.

A mid-January Harris poll showed 7.6 million American households report members of their families are hungry and do not get enough to eat. This translates into close to 21 million Americans who can be reasonably classified as suffering from hunger.

Seventy percent of the cities examined in the U.S. Conference of Mayors report expect the demand for emergency services to increase during 1984.

The food research and action center reported in January that Black infant mortality rates, 86 percent higher than white in 1978, were 95 percent higher by 1982 and the problem is not one of race, but of poverty.

The administration's response to the crisis of hunger in America has been mind boggling. No other administration in history has displayed such a callous disregard for the problems of the poor and the hungry.

A million people lose their food stamp benefits and the President Reagan says they were "morally ineligible" to receive them in the first place.

22 percent of American children live below the poverty line and Ed Meese says he hasn't seen any authoritative figures that there are hungry children in America.

The Conference of Mayors produces a study showing that 90 percent of the cities surveyed cite unemployment as the major reason for an upsurge in requests for emergency services like soup kitchens, and Ed Meese says people are there "because the food is free." 53% of cities can't meet demands for shelter, and President Reagan says people sleep on grates because they want to.

We have 34 million Americans living below the poverty line—5 million more than when Ronald Reagan took office. People are going hungry and frankly, your report stands repudiated.

Chairman **Domenici**. Senator Metzenbaum, I certainly agree that there should be much more attention and much more concern. I also would add to your statement that from my standpoint, at least, in preparation for this hearing, I learned a little bit, and I certainly think you include that in your reasons for somebody coming here. There is something to learn. We hear a lot. We hear contentions. And yet, there is a lot of evidence that we ought to be gathering about what we have done right, what we have done wrong, and what the problems are. We do not get that unless we show up. I think you are right.

Senator Chiles will return shortly. He has asked that his opening statement be made a part of the record, and without objection, we will do that.

[The prepared statement of Senator Chiles follows:]

PREPARED STATEMENT OF SENATOR CHILES

I want to welcome our panelists here this morning to discuss the report of the President's task force on food assistance.

The report notes that the number of people below the proverty line is greater than at any time in the last 15 years. It admits more people are seeking food assistance. It mentions the growing number of reports that people are running out of food stamps. And it concedes that many people who are eligible for food assistance are not getting help.

These facts tell me there are hungry people in America. But the main thing these facts seem to tell the task force is that hunger is a complicated issue.

THE "NEW HUNGRY"

I'm afraid the report is a relatively timid response to one of the most basic problems of everyday life in a rich nation. Perhaps one reason for the mild nature of the report is that the names of the hungry have changed in the last few years. Many of these people recently held high-paid jobs that helped them acquire homes and automobiles. But the recession cost them their livelihoods. Some call these people the "new poor." But, in many cases, they are also the "new hungry."

These new hungry find themselves with assets that disqualify them for food stamp assistance. And the Task Force does recommend a modest upward adjustment in the asset limits for food stamps. Yet, I find no bold recommendations in this report to help these people get over the rocky part of their lives without undoing everything they've built up over the years.

I would like to see some ideas about a short-term program to help these people. Perhaps some sort of temporary eligibility for food assistance might be instituted—maybe even on a repayable basis—to reach those who are hungry right now. I would be interested in the panelists thoughts on that possibility.

OUTREACH PROGRAM OVERLOOKED

I am concerned, as well, than an outreach program has been overlooked in the Task Force report. I remember that as far back as 1977, the Senate Aging Committee held hearings on food stamps for the elderly, and the outreach issue came up. Evidence at that time suggest that out of 5 million elderly then eligible for the program only about one million participated. In fact, one of our panelist—Mr. Greenstein—participated in those hearings.

It's ironic that we heard the of community groups in both inner city and remote rural areas, were available to help notify people of nutrition program. And it is equally ironic that the Task Force indicates it's so hard to identify the hungry. If outreach programs had not been eliminated as cost saving step, we might know more about the hungry right now, and these might be fewer of them.

I find other problems with the Task Force report. I have reservations about block grants for nutrition programs in the states. And I'm not sure stiffer penalties of states that exceed an error rate of five percent is the answer. We could end up with the federal bureaucrats penalizing state bureaucrats, without improving the hunger situation in the United States.

HUNGER IS A PROBLEM

Timid as the Task Force has been, it at least concludes that hunger is problem. Yet the President's budget calls for more cuts in the WIC program, and further reductions in child nutrition programs. Moreover, the budget overlooked positive elements of the report, like restoring the thrifty food plan to 100 percent of its value.

Overall, the Task Force attempted to debunk what it perceived as myths about hunger. But in so doing, it ends up missing key facts. It did not seem to take into account a 1983 GAO report on emergency food centers that "unmet needs remained." While the Task Force cites a study by The Center on Budget and Policy Priorities, it overlooks one of the key points in the study that most soup kitchens and food pantries had to turn people away or limit the number of times people could come back. And although evidence in Detroit, Pittsburgh, and Santa Clara County, California, suggest hunger is a problem that's not being adequately dealt with, I find none of these examples in this report.

All of us know the days of rushing to throw money at problems are over. But I hope we will not be so timid about the hunger problem that we will try to find other explanations for hunger rather than trying to find practical solutions.

I hope our panelists this morning will give us their thoughts on what they personally feel should be done to deal with hunger in America.

Chairman **DOMENICI**. Dr. LaForce, would you like to proceed?

STATEMENT OF DR. J. CLAYBURN LaFORCE, JR., DIRECTOR, PRESIDENT'S TASK FORCE ON HUNGER

Dr. **LAFORCE**. Thank you, Mr. Chairman, Senators.

My name is J. Clayburn LaForce. I acted as Chairman of the President's Task Force on Food Assistance. With me today, incidentally, sitting right behind me, is Dr. John Raisian, who was the Executive Director of the task force.

I am very pleased to be here today to present to you some of the task force findings and recommendations.

As expressed in the Executive order creating our task force, we were instructed to:

> * * * analyze Federal and other programs intended to render food assistance to the needy and make recommendations with respect to how such programs may be improved.

In our 3 months of study, we held hearings and heard testimony from program participants, administrators, researchers, experts, and public officials. All political persuasions and viewpoints were represented. We visited soup kitchens, we ate meals with the needy, and we also visited other food assistance outlets. We solicited information from anyone willing to assist us in our investigation. And I should mention here at the outset that the main body of our report was accepted unanimously by the task force, with some dissenting votes on some recommendations.

While our mandate was to study food assistance programs, we found it impossible to separate such an examination from the public's concerns about the degree of hunger that exists today.

HUNGER IS IMPOSSIBLE TASK TO QUANTIFY

Our findings in this area are similar to what many others have found: There is hunger in America. But it is an impossible task to quantify it. If hunger could be measured, the necessary statistics would have been gathered a long time ago.

Unfortunately, excessive and counterproductive claims have been made on both sides of this issue. Those who are hungry and in need of assistance do not benefit from discussion and dissent over numbers. The task force suggests we instead focus discussion on how to resolve the practical problems we face. Any amount of hunger is too much and represents a serious social problem. We have a duty to continue to seek effective ways to aid those who are less fortunate among us.

In studying the problem, we have found several groups of concern, each having diverse problems and particular needs. First, there are the traditional poor, including the elderly and single-parent households. Second, there are the new poor who have slipped into poverty as a result of extended spells of unemployment. And third, there are the homeless, or the street people, who often suffer from tragic problems such as mental disabilities, or drug and alcohol abuse. There is no single, simple solution to the complex problems faced by these three groups of people.

We have also found a strong social commitment to aiding those in need. This commitment goes well beyond the Federal programs. In our hearings, we repeatedly heard inspiring stories about the hard work and ingenuity that Americans put into private food assistance. And incidentally, we personally witnessed these splendid efforts.

These private organizations deal compassionately with specific individual problems and emergency needs in a way that state and Federal programs simply cannot. Their efforts are particularly essential for homeless people, who often can be reached only through their services.

So the social safety net is, quite properly, composed of Federal, State, local, and private efforts. The Federal Government offers the important advantage of its ability to tax equitably across all areas of the country to support needy persons in the poorest areas. However, largescale national programs require administrative systems and regulations that are, by their nature, relatively inefficient in meeting specialized or local, temporal needs.

NEEDS ARE DIVERSE

In our report, we have tried to emphasize that the needs are diverse, and that a safety net of both public and private efforts is essential. Our major focus, however, was on the Federal programs. The nation's level of commitment to Federal food assistance programs is extensive. There are 13 major programs and Federal expenditures exceeded $19 billion in 1983. We have just seen these figures. Less than 15 years, the Federal Government spent less than $3 billion a year, and we are expressing those in 1983 dollars; that is why we have a little difference in what you saw earlier in that number.

Even with this extensive effort, the Task Force has discovered several areas where we believe the Federal safety net should be strengthened.

The weaknesses in the safety net, however, are not really new. The problems have been exacerbated by recent recessions. Placing blame for all of our problems on Congress or on the current administration is simply not warranted.

CHANGES IN FOOD ASSISTANCE PROGRAMS

As you well know, many chnnges in food assistance programs were enacted in 1981 and 1982. These changes were the topics of much discussion at our hearings. As a result, we took care to examine closely the available data in order to assess the impact of recent changes in the major food assistance programs on the amount and availability of benefits to low-income households.

In the food stamp program, the principal change affecting eligibility was the elimination of households with incomes greater than

130 percent of the poverty line. We have examined the effect of this change with the data that the Census Bureau utilizes to calculate poverty rates. We find that participation rates among families with incomes below the poverty line—the program's primary target group—were not affected. If anything, participation within this group has increased a bit. The effect of the changes was to reduce participation among families with income levels above the poverty line.

There have also been some reductions in benefits for participants in the food stamp program. The principal reduction resulted from delaying the adjustment of benefits for changes in food prices between 1981 and October of last year. Additional reductions include basing food stamp allotments on 99 percent instead of 100 percent of the thrifty food plan; reducing the earned income deduction from 20 percent to 18 percent; prorating benefits in a recipient's first month in the program, and rounding down benefits to the nearest dollar. Now that the freeze is over, the remaining benefit reductions are relatively small.

In the school lunch and school breakfast programs, the major changes have been reductions in the level of subsidy for full- and reduced-price lunches and breakfasts, and a minor tightening of eligibility for reduced-price lunches.

Free lunches and breakfasts are still available to children in poverty households and in households with incomes up to 130 percent of poverty.

The task force was able to use the Census Bureau data to examine recent trends in the number of students from poverty households that receive free or reduced-price school lunches. Our findings with respect to the school lunch program are similar to those for the food stamp program. They confirm that the receipt of free or reduced-price school lunches has not fallen in recent years for children from families with incomes below the poverty line. Participation among children from families with income above the poverty line—who generally are not eligible for free lunches—has declined somewhat.

Our analyses of these major programs indicate that program changes enacted in recent years have had the intended effect of limiting program growth, but not cutting participation among the most needy families.

Now I would like to briefly review how some of the remaining food assistance programs have changed.

In the child care food program, the number of subsidized meals per day has been reduced, and restrictions have been placed on reimbursements and eligibility. Despite this, meals subsidized under these programs are about the same as in 1981, and are 22 percent higher than in 1980.

The special milk program is no longer offered where other school meals are subsidized.

The summer food program has been limited to lower income areas, and restrictions have been placed on the kind of sponsor that can operate the program.

The WIC program has continued to grow. Since 1980, cases served have increased by 30 percent, and spending has increased 60 percent.

Commodities distribution has increased remarkably, due mainly to the new special commodities distribution program. Approximately 200 million dollars worth of commodities was distributed in 1980; in 1983, the amount was about $1.3 billion—more than a sixfold increase.

In sum, we find that while a few of the smaller programs have been cut substantially, on balance, the availability of food assistance for low-income households and the level of benefits has not been reduced.

SHORTCOMINGS IN CURRENT FOOD ASSISTANCE PROGRAMS

While recent program changes do not appear to be the sole or major cause of current problems, the task force has found several shortcomings in current food assistance programs and has made detailed recommendations addressing these problems.

We have found that the asset limits in the food stamp program are unrealistically low for many of the new poor, and we recommend their liberalization.

We have found that the homeless still find it difficult, if not impossible, to obtain food stamps in some areas, despite the enactment of Federal regulations intended to prevent it. We recommend that this situation be remedied at once.

We have found no justification for basing food stamp allotments on anything less than the full value of the thrifty food plan, and we recommend a return to basing these allotments on the full value of the plan.

We have found the error rate in the food stamp program to be out of line with those observed in other programs. We recommend stronger incentives for States to improve administration.

We have found that many elderly and disabled persons often face particular problems with the food stamp program. To facilitate their participation, we recommend that the program be cashed out for these groups, or at least that they should be permitted to use food stamps to purchase prepared meals.

We have also found that there is currently no mechanism for obtaining a comprehensive and accurate reading of the current nutritional status of our citizens. The task force recommends that better information be gathered with respect to the nutritional status of our Nation's households.

We believe that these recommendations will benefit many recipients of food assistance, and many who are not now receiving assistance.

I would now like to turn to two of our broader recommendations. These recommendations are to allow optional autonomous food assistance programs run by the States, and to study new ways of defining poverty.

AUTONOMOUS PROGRAM RECOMMENDATION

Our recommendation for autonomous programs stems from several basic findings:

First, people's needs and the circumstances they face vary from region and region and State to State. The enormous Federal program, with its necessarily uniform national standards of eligibility and benefits simply cannot be tailored to meet the needs of all people.

Second, a uniform national program cannot attempt to meet specialized needs and needs that change over time without adding more complicated deductions and questions on the application form. This would increase program complexity and administrative burdens.

Third, high error rates result from the existing structure of Federal programs, because States are not fully responsible for the errors.

We believe that allowing the States the option of running programs with full and guaranteed Federal support would help to reduce these problems. The essential features we would propose are as follows.

The program is optional to the States; any or all existing programs may be included.

The program would continue to provide full Federal funding for benefits and State administration.

Funding would be indexed to be responsive to changes in the size of the State's population in need and inflation. Funding could be adjusted throughout the year as economic conditions change.

We have attempted to address some of these very basic and difficult problems that have been presented to us by many people. Even though some, and perhaps many, of you may disagree with our specific recommendations, I hope that you will agree that the problems they are designed to address warrant serious consideration and should not be dismissed.

STUDY NEW WAYS TO DEFINE POVERTY

The deepest and most difficult problems faced by everyone who deals with the Federal safety net programs are the questions of what is an adequate amount of assistance and who should receive it. Ultimately, the answers to these questions must rest on our moral, political, and economic judgments. However, we need to obtain a solid factual foundation for these judgments. We need to give serious study to the question of what constitutes poverty and to how trends in poverty can be measured.

We believe that it is possible to obtain much better information on the meaning and measurement of poverty. Such information could tell us how the cost of living changes for poor people; what level of income is necessary to achieve an adequate standard of living; what proportion of income people can reasonably be expected to spend on food; and how the cost of living varies from one area to another.

Better measurements will not automatically answer the difficult questions that must be faced. However, informed judgments will yield a fairer system that should improve services for the needy.

In closing, I think I speak for my fellow task force members when I say that this has been a difficult, but in some senses, a rewarding task. We have tried to advance the discussion on the issue. We believe we have made some sound and helpful recommendations. And finally, we hope that some of the questions we have raised will help focus the debate on the efficiency and adequacy of the Federal food assistance programs.

Chairman **Domenici**. Thank you very much, Dr. LaForce.

Unless the Senator has some difficult time constraints and wants to ask questions out of turn, which I would be glad to accommodate, I will proceed now with the testmony of Mr. Robert Greenstein.

Mr. **Greenstein**. Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you for coming. It has been a pleasure working with you in the past. I know you have some good understanding of this issue, and you have some deep convictions, and we are glad you are here.

Senator Metzenbaum.

Senator **Metzenbaum**. Mr. Chairman, in case I walk out while Mr. Greenstein is speaking, I just want you to know that I think it is the archbishop of Greece—they have asked some of us to come to the floor, because he is going to deliver the invocation. So I would just leave for a few minutes. He gets priority over you. I did not want you think I was walking out on your testimony.

Senator **Grassley**. Mr. Chairman, I would also like to explain a conflict I have with Finance. Secretary Heckler is before the Finance Committee, and I will be going over there pretty soon, as well.

Chairman **Domenici**. Well, I would like to explain that I have a conflict, and that means we will not have a meeting. [Laughter.]

I should go down there to meet the archbishop, also, but we will pass this time.

Senator **Grassley**. Would you like to go now? I can stay here until 10:30.

Chairman **Domenici**. What time will he be there?

Senator **Metzenbaum**. 10:30.

Chairman **Domenici**. Well, let me get word—we have four Governors here on acid rain.

Please proceed, Mr. Greenstein.

Mr. **Greenstein**. Thank you, Mr. Chairman, and let me just say that it also has been my pleasure over the last few years, and in the years before that, to have been able to work with concerned members from both parties up here. I am certainly one who believes that we will not continue to make progress on the hunger problem unless we do it on a thoughtful and bipartisan basis.

Chairman **Domenici**. Before you proceed, let me recall here.

Did I indicate to you, Dr. LaForce, personally, as chairman of this committee, that I thank you for the work that you have done? If I did not, I should have. I think you did a good job. It is a controversial subject, but as you read the recommendations, they make good sense, and many of us around here who make a lot of racket, including me, we ought to do something to implement some of them, rather than make so much noise. And I greatly appreciate it. I think it was a good report.

Senator **Metzenbaum**. Dr. LaForce, I will not make a speech, but just so my silence will not be interpreted as assent, I just want to say I do not think you did such a good job. But I will get to that a little later.

Chairman **Domenici**. If you get back. [Laughter.]

Go ahead.

Mr **Greenstein**. Mr. Chairman, I am a little unsure how to proceed here. I have a statement I would like to go through.

Also, you requested that if we had some comments on your opening statement, and on some of the figures on the charts, that we mention those, and perhaps I might make a few introductory remarks on that and then go into my prepared statement—or how would you like me to proceed?

Chairman **Domenici**. I think, since it is obvious we are not going to get a lot of participation from up here, that you ought to go ahead and make your statement a part of the record. That assumes that maybe some who are not here are going to be interested enough to read it. Let's get that out of the way. Why don't you proceed to summarize it, and then comment on whatever you would like, with reference to either my statement or Dr. LaForce's?

Why don't we take about 10 minutes, and then go to the next witness, and after that we will get a little exchange going.

Is that fair enough?

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. **Greenstein**. Yes, sir.

Mr. Chairman, I would like to address some of the task force's recommendations and findings, but before doing that, I would like to make some brief comments about the rather sharp divergences, and I think, unfortunate divergences, between some of the task force recommendations and some of the administration's new budget proposals in the food assistance programs.

In recent weeks, Dr. LaForce has stated that the task force found hunger to be a significant problem throughout our Nation. The task force report also indicates that the hunger problem has increased significantly in discussing the very large increases in recent years of the number of people seeking aid at emergency food centers and soup kitchens. The task force report does state that both the need and the availability have grown significantly.

It seems to me that the task force finding of significantly increased need has not received much attention in the media, but is one of the more important findings of the report.

Unfortunately, the administration's new budget responds to this by ignoring nearly all of the task force's recommendations—and by proposing over $800 million a year in new reductions—some of which would have very serious effects

I would like to talk in particular for a minute about the WIC program.

MAINTAIN WIC CASELOADS AT CURRENT LEVELS

The task force recommended that WIC caseloads be maintained at current levels. Currently, 3 million women, infants, and children are served in the WIC program. By contrast, the administration budget would require very major reductions in the WIC caseload both in fiscal 1984 and in 1985, with the most severe cuts coming in 1984. Between half a million and a million low-income pregnant women, infants, and children, who have been found to be at nutritional risk, would have to be removed from the program in coming months.

Congress made clear last year that its WIC policy for this year was to maintain the current caseload. It funded the program at that level for 9⅓ months in the continuing resolution. The Appropriations Committees asked the administration to submit the necessary supplemental and explicitly directed the administration not to reduce the caseload.

Rather than request the $300 million needed to fund the program through September 30, however, the administration's new budget requests a supplemental of only $167 million. At that rate, if the WIC caseload is maintained at the current level of 3 million persons, as the law requires, until the funds run out in early July, then 1 million persons—1 million women, infants, and children—would have to be dropped from the program in July, August, and September. Even if the Congress acted immediately to start cutting the program sooner, half one million women, infants, and children would have to be dropped from the program for the last 6 months of the year, starting April 1.

For fiscal 1985, the administration's proposed level is $217 million, or 15 percent below the level the CBO says is needed to maintain current services, and that would require a reduction of 300,000 to 450,000 women, infants, and children from the program.

As you know, the WIC program today reaches under half of those who qualify for it, and to remove hundreds of thousands and up to 1 million low-income women, infants, and children from this program, at a time when the task force itself has acknowledged hunger to be a significant problem and recommended that the current caseload be maintained, would be deeply unfortunate.

In the area of food stamps, as Dr. LaForce noted, the task force recommended that food stamp benefits be based again on 100 percent of the thrifty food plan and said it found no justification for a lower benefit level, but the administration has ignored that. The task force called for adjustments in the assets limits to help more of the unemployed poor get food stamps. That is not in the budget.

The task force recommended that workfare remain an option of State and local governments. The administration ignored that and called for mandatory workfare in the budget, despite the fact that CBO reported last year that the evidence at this point fails to show workfare is cost effective.

There are similar problems, I would add, in the child nutrition area, where a block giant is proposed that, unlike the task force recommendations, does not adjust for food prices, and by 1987, would represent a cut of nearly 20 percent below the current services baseline.

RECOMMENDATIONS WOULD HAVE DELETERIOUS CONSEQUENCES

Let me turn now to the task force recommendations. Given my comments on the differences between the administration budget and the task force recommendations, you might infer that I favor the task force recommendations.

Let me say that, while I do believe a number of them are positive and would be of help, I do think several of them would have deleterious consequences so serious that I believe they would outweigh the good in the other task force proposals.

That view may sound harsh, but it is widely shared, especially among religious and ecumenical organizations that have been active for years in charitable work in the food area.

On January 11, 20 national religious organizations and 23 other organizations representing senior citizens, low-income children, civil rights groups, and others, joined in an unusual joint statement on the task force report. The statement said that the task force recommendations "would on balance make this tragic hunger problem yet worse."

Among the groups signing the statement were the National Conference of Catholic Charities, the American Baptist Churches, the Presbyterian Church U.S.A., the Lutheran Council, the Episcopal Church, the Women's Division and the General Board of Church and Society of the United Methodist Church, the United Church of Christ, the Union of American Hebrew Congregations, the League of Women Voters, the American Association of Retired Persons, the Urban League, and so forth.

I believe that most of these organizations would commend a number of the individual task force proposals. But the recommendations regarding autonomous food programs and error rate sanctions and a few additional recommendations could yield such unfortunate results that the overall impact of the task force proposals would end up being negative on low-income families. My hope is that Congress will set these adverse proposals aside and consider the remainder.

I would like to comment on those adverse proposals and then conclude my testimony.

AUTONOMOUS FOOD PROGRAM WOULD NOT MEET NEEDS

The proposal for autonomous food programs, similar to what we often call block grants, would inevitably make food stamp and child nutrition programs less responsive to need and would result in hardships during periods of economic recession. Under the current food stamp program, more food stamps are automatically provided in a State if unemployment rises and more persons become poor in the State. Similarly, more children in a State can automatically receive free school meals if unemployment rises. The key feature here is that a needy family or a poor child has an entitlement to these benefits. If the family or the children are needy enough to qualify, they are assured of receiving benefits regardless of which State they live in.

Under the autonomous programs, the entitlement to individuals would end. States would receive fixed amounts of funds. If the amounts proved insufficient, benefits would have to be cut, or needy persons left out of the programs.

This is particularly important because the number of persons needing assistance fluctuates in a State as economic and demographic conditions change. It is simply not possible to design a fixed grant program that adequately meets the changing needs of income maintenance-type programs of this sort.

The task force has attempted to respond to this issue by indicating that the amount of funds provided to each State could be varied quarterly or even monthly to reflect changes in State population, level of unemployment, and food prices. While such an approach is well-intentioned, it simply will not work. Monthly State unemployment rates are not known until 2 to 3 months after the unemployment rate actually rises or falls in a State.

State population data is several years out-of-date, and there is no good source of information, outside of the decennial census, on demographic shifts that can affect food assistance needs on a State-by-State basis. In short, this approach is not capable of assuring that when additional needy persons apply for food stamps or free lunches in a State, the funds will be there to meet the increased need on a prompt basis. Similarly, this approach is unable to assure that other States do not receive more funds than they need.

I would also note that a fixed grant program in which the allocations to States vary quarterly or monthly would be exceedingly difficult for States to administer.

OTHER PROBLEMS WITH FOOD PROGRAMS

There are other problems with this proposal, as well. First, the autonomous food programs are likely to lead to poorer, not better, management. Currently, States must lower food stamp error rates substantially or face major financial penalties. The autonomous food programs wipe out the Federal penalties. Under the autonomous program, a State could have a relatively high rate of fraud or error, and it would face no sanctions at all. The pressure to reduce errors, which is really now starting to take hold, would be off. Indeed, it is likely that some States with significant error rates would opt for the autonomous food programs precisely in order to escape Federal fiscal penalties, and the acute political embarrassment that they can and will cause for State officials in coming years.

In addition, a matter of grave concern to religious and civil rights organizations is that the autonomous food programs could very well lead to benefit reductions for certain types of poor families who generally have little political clout, such as poor women and children in the South, many of whom are black.

The history of cash welfare programs, I am afraid, bears this out. In these programs, where benefit levels are generally set by the States, women and children get substantially lower payments than the elderly and disabled, and two-parent and childless families frequently receive no benefits at all.

Today, there are 15 States in which a mother and two children with no other income receive less than $250 a month in AFDC payments. In Mississippi, it is $96 a month for a family of three with no other income. In over half the States, no benefits whatever are provided to a family, no matter how destitute, if both parents are present.

Mr. **BIDEN**. Mr. Greenstein, could I interrupt you for a second? Mr. Chairman, I know this is unusual, and I apologize.

[Whereupon, Senator Grassley assumed the chair.]

Senator **GRASSLEY**. Senator Biden.

Senator **Biden**. I want to explain to the three gentlemen why I am going to be getting up and leaving. I am going down to the Kissinger Commission report before the Foreign Relations Committee. That is not to suggest that I do not think this is extremely important.

But with your permission, Mr. Chairman, I would like to ask unanimous consent that a half dozen or so questions that I have prepared be submitted in writing in the event that the panel is gone before I am able to get back.[1]

Senator **Grassley**. That would be permissible, without objection.

Senator **Biden**. Thank you very much.

I apologize.

Senator **Grassley**. Mr. Greenstein, go ahead.

STATES WOULD REDUCE BENEFITS

Mr. **Greenstein**. Thank you.

I was just going to comment, Senator, that I believe there is every reason to fear that under the autonomous food programs, the same political factors would lead a number of States to reduce benefits for families and children.

Moreover, one of the most outstanding features of the current food stamp program—the fact that it automatically helps to narrow the gap among State welfare payment levels, by providing more benefits to mothers and children who are poorer because their State pays low welfare benefits—would be lost.

As the 20 national religious organizations observed in their joint statement, when States set their own eligibility standards for food stamps in the 1960's, some States set eligibility cutoffs at only about half the poverty line. During the same period, many jurisdictions with school lunch programs failed to provide free lunches to poor children who could not afford to pay for them.

The huge variations in food stamp income limits that prevailed in the 1960's, and the variations in the availability of free school lunches, as well, were not related to differences in living costs. They essentially represented the political weakness of low-income groups in certain States.

These political factors, which Richard Nixon successfully combatted when he helped to establish national food program standards to alleviate the hunger problems he found, should not once again be permitted to determine who gets enough to eat and who does not.

TASK FORCE LACKED INFORMATION ON ERROR RATES

The other major issue I would like to discuss is the error rate area. In 1982, the Congress enacted an error rate penalty system authored by Senator Dole that required States to cut their error rates to 9 percent in fiscal 1983, 7 percent in fiscal 1984, and 5 percent in fiscal 1985 and subsequent years. States failing to do so would face very substantial fiscal penalties.

The task force, on the basis of little evidence, recommended changing this system for 1985 and later years by prescribing a new formula that greatly enlarges the fiscal penalties to be imposed on States with error rates above 5 percent.

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[1] See p. 76.

During the task force's debate on this issue, one task force member asked the task force staff for data on the size of the current sanctions and on how much the task force proposals would increase these sanctions. The task force staff responded that it had not compiled the data. The task force then approved the recommendation anyway.

I believe that this action was a mistake, based in part on lack of knowledge of the consequences of the recommendation.

At least a number of task force members mistakenly believed that because the current error rate sanctions are computed as a proportion of State food stamp administrative costs, that those sanctions must be quite small. This is not correct.

The chart in my prepared statement [1]—and I have a fuller chart, if you would like, for the record, that proves this information on a State-by-State basis—shows what the total sanctions would be nationwide for 1983, 1984, and 1985, based on the latest State error rates published by USDA. The chart shows that if States do not lower their error rates, sanctions will equal $220 million a year in fiscal 1985 and subsequent years. Those numbers, which the task force members never had, show that assumptions that current sanctions are small are erroneous.

SANCTIONS WOULD DOUBLE

The task force also lacked information on how much its proposals would increase these already substantial sanction levels. Using the same USDA-published error rates, simple mathematical computation shows that under the task force recommendation, the sanctions would more than double. The sanctions would jump from $220 million a year to $460 million a year in 1985 and future years, if error rates held at current levels.

Clearly, a recommendation to legislate these very large increases in sanctions should not be taken lightly, and should be based on strong supporting evidence. The evidence, however, is not there. There is no data to show that larger sanctions are needed to get error rates down. Last year, when the administration submitted a proposal to greatly increase the error rate penalties, CBO analyzed it and concluded that it would not result in lower error rates, just in bigger sanctions. CBO concluded that the current sanction system will spur States to take as much error reduction activity as the heavier-handed administration proposal would have, and that the principal effect of larger sanctions would be to shift costs to the States.

In addition, there is no evidence that the current sanction system is inadequate and needs to be replaced. USDA recently announced that States are now making major progress in lowering error rates, and that 38 States succeeded in driving their fiscal 1983 error rates below 9 percent. That is an increase of nearly 50 percent from the previous year in the number of States with errors below this level. Moreover, the current system designed by Senator

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[1] See p. 38.

Dole is yet to have its full effect. To date, the only error rate sanctions USDA has levied are the smaller sanctions that were used before the 1982 amendments were passed. The first fiscal penalties under the Dole system, which will be much larger, have yet to be assessed.

One final point on this. In Dr. LaForce's testimony, he noted that food stamp error rates are above those in other programs. I think we need to be very careful in making such statements, we compare apples and apples, and not apples and oranges. One of the points that has been made is that food stamp error rates are above medicaid error rates. As I believe Senator Chiles knows, in the medicaid area, only eligibility errors are counted as error rates. None of those overpayments to medical providers and doctors are counted in the medicaid error rate.

In food stamps, we count both eligibility errors and overpayments.

Second, in medicaid, most recipients are automatically eligible by virtue of getting AFDC or SSI. It is not possible to have a very large eligibility error rate.

Third, in medicaid, the amount that is counted in error is only the amount of the medicaid payment that would be equivalent to the spend-down, and anything beyond that is not counted as an error.

In food stamps, if you are ineligible, even if you are $1 over the income limit, the entire payment is counted as an error.

If we compute the food stamp error rate on the same basis as medicaid, the error rate is the same, maybe even lower than in medicaid.

In SSI, the error rate is lower than food stamps, but SSI is limited to elderly and disabled on fixed incomes. If we take the food stamp error rate only for elderly and disabled, only for the SSI caseload, we will find the food stamp error rate is comparable to the SSI error rate. We need to be careful to compare apples and apples. The plain fact of the matter is that food stamps counts more errors than AFDC or medicaid, and that is not limited to people on fixed incomes or mothers and children, but includes single households, single males, and male-headed households, the very kinds of households with higher error rates.

ALTERING SANCTION SYSTEM WOULD CAUSE HARM TO NEEDY FAMILIES

The final point on this is that altering the sanction system in the manner recommended by the task force would cause significant harm to needy families. When costs of this magnitude are shifted to the State welfare departments that administer the food stamp program, the States must find some way to come up with the money. The most ready way for State welfare departments to finance the increased sanctions, and still stay within their departmental budget, is to set AFDC payments lower than they would otherwise be. This is easily accomplished by allowing AFDC payments to fall further behind inflation. That would be truly tragic. Congressional Research Service data show that AFDC payments have already fallen 36 percent in real terms from 1970 to 1983. No other part of American society has fared so badly during that period, and the task force itself has acknowledged that the decline in real AFDC payments is one of the causes of increased hunger in the country.

Since the sanction levels under current law are already large, since the current law seems to be working in prodding States to reduce errors, since there is no evidence that the task force recommendation would drive errors to lower levels, and since the most likely outcome of this proposal would be cost shifts to States that in turn would result in reduced benefits for many poor families, I hope the Congress does not accept the recommendation.

Mr. Chairman, I am also troubled by the task force recommendation to freeze the WIC caseload at its current level. WIC still reaches a minority of those low-income women, infants and children who qualify, and some local areas still have no WIC program at all. Since the program began in 1974, it has been steadily expanded by the Congress so that it gradually could reach an increased proportion of those pregnant women, infants and children eligible, and I would urge that that process continue.

I would conclude by saying that, having criticized several of the task force recommendations, I do want to note that there are a number of task force recommendations that are positive. I feel that some of them do not go far enough. But I do want to say that if the adverse proposals are set aside, I do think that enactment of many of the remaining proposals would indeed represent progress in combating the hunger problem that I think we all now acknowledge exists and needs addressing in this country.

Thank you.

Senator **Grassley**. Thank you.

[The prepared statement of Mr. Greenstein follows:]

TESTIMONY OF ROBERT GREENSTEIN
DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES
before the
SENATE BUDGET COMMITTEE
February 7, 1984

Mr. Chairman, I would like to thank you for extending to me an invitation to testify here today. I am Robert Greenstein, director of the Center on Budget and Policy Priorities. I have worked in the food assistance area for over 11 years and served as Administrator of USDA's Food and Nutrition Service in 1979 and 1980.

Before addressing the Task Force's recommendations and findings, I would like to make some brief comments about the rather sharp divergences between the Task Force recommendations and the Administration's new budget proposals for food assistance programs.

In recent weeks, Dr. LaForce, the Task Force chairman, has stated that the Task Force found hunger to be a significant problem throughout our nation. In addition, the Task Force report indicates that the hunger problem has increased significantly. In discussing the very large increases in recent years in the numbers of persons seeking aid at emergency food centers and soup kitchens, the Task Force Report states that "both need and availability [of food at emergency agencies] have grown significantly." This Task Force finding of significant increased need has not received much attention in the media, but is one of the more important findings of the Report.

Unfortunately, the Administration's new budget responds to this problem by ignoring nearly all of the Task Force's recommendations -- and by proposing over $800 million a year in new reductions (see Appendix for an accounting of the $800 million). Some of the proposed reductions would have very serious effects.

1. Proposals regarding the WIC program

The Task Force recommended that WIC caseloads be maintained at current levels. Currently, 3 million women, infants and children are being served in this program.

By contrast, the Administration budget would require major reductions in the WIC caseload in FY 1984 as well as in FY 1985. The most severe cut would come in FY 1984. Between 500,000 and 1,000,000 low income pregnant women, infants and children who have been found by medical professionals to be at nutritional risk would have to be removed from the program in coming months.

Last fall, Congress made clear that its WIC policy for FY 1984 was to fund the program at the level necessary to maintain the year-end FY 1983 caseload of 3 million persons. In the Continuing Resolution, Congress provided funding for the program for the first 9 1/3 months of the fiscal year (through July 10) at the rate needed to maintain the caseload. The Appropriations Committees asked the Administration to request a supplemental for the $300 million needed to carry the program through the remainder of the year. The Appropriations Committees also expressly directed the Administration not to cut the WIC caseload in the meantime.

Rather than request the $300 million needed to fund the program through September 30, however, the Administration's new budget requests a supplemental of only $167 million. This would result in deep cutbacks.

If the current WIC caseload of 3 million persons is maintained (as the law requires) until the funds currently appropriated run out in early July, then a major crisis would hit at that point. The supplemental funding the Administration has requested would be so insufficient that one million low income women, infants and children at nutritional risk would have to be dropped from the program in July, August, and September.

Even were Congress to respond to the Administration's proposal by acting immediately to authorize WIC caseloads to be reduced now, the results would still be extraordinarily severe. If caseloads began to be cut on April 1, then more than 500,000 women, infants and children would have to be terminated for the last six months of the fiscal year to stay within the Administration's proposed funding levels.

The Administration budget also proposes a major WIC cut in FY 1985. The Administration has proposed a WIC funding level of $1.254 billion for FY 1985, which is $217 million (or 15%) below the level CBO says is needed to maintain WIC at its current services level. The Administration request would entail a reduction in FY 1985 of 300,000 - 450,000 participants below the number now reached in the program. (An appendix at the back of this testimony provides more detail on the impact of the WIC proposals for both FY 1984 and 1985).

The WIC program today reaches well under half of those low income pregnant women, infants and children who qualify for it. To remove hundreds of thousands of these persons from the program at a time when the President's own Task Force acknowledges that hunger is a significant national problem would be deeply unfortunate.

2. Food stamps

The Administration budget also represents a sharp departure from the Task Force in the food stamp area. The Task Force recommended a modest increase in food stamp benefit levels. In particular, the Task Force said there was no basis for the budget cut enacted in 1982 that, for the first time in the program's history, reduced food stamp benefit levels below the cost of USDA's "Thrifty Food Plan." The Task Force called for increasing benefits to reflect the full cost of the Thrifty Food Plan, which is the least expensive food plan USDA has yet devised. However, the Administration budget does not contain this recommendation.

The Task Force also called for adjustments in food stamp assets limits to enable more of the unemployed poor to receive food stamp assistance. The budget ignores this as well.

Finally, the Task Force recommended that workfare remain an option of state and local governments. The Administration rejected this recommendation and called for making workfare a mandatory federal requirement. When the Administration made a similar proposal last year, CBO reported that the evidence at this point fails to show that workfare is cost-effective.

3. Child Nutrition

The Administration has also proposed to merge the Child Care Food Program and the Summer Food Program into a block grant whose funding would be frozen, for years after FY 1985, at FY 1985 levels. Currently these programs are entitlements whose funding is tied to changes in food prices. The Administration's budget figures show that, largely because of the freeze, the proposed block grant would result in a cut of nearly 20% below "current services" levels for these programs in FY 1987. The result would be either that fewer children would receive meals, or that the amounts of food provided to the children would have to be significantly reduced. This, too, contrasts with the Task Force's recommendations. The block grants that the Task Force recommended (which I believe would cause very serious problems in and of themselves) did at least call for funding levels to be adjusted each year in accordance with increases in food prices.

THE TASK FORCE RECOMMENDATIONS

Given my comments on the Administration budget and the Task Force recommendations, you might infer that I favor the Task Force recommendations. I do believe many of the Task Force recommendations are positive and would be of some help in addressing the hunger problem (although I think some of the recommendations scratch the surface and do not go quite far enough). However, several Task Force recommendations would have very serious and deleterious consequences -- so serious that I believe they would more than outweigh the good in the other Task Force proposals.

This view may sound harsh, but it is widely shared, especially among religious and ecumenical organizations that have been active for years in charitable work in the food area. On January 11, twenty national religious organizations and 23 other organizations representing senior citizens, low income children, civil rights groups, and other organizations issued an unusual joint statement on the Task Force report. The statement said that the Task Force recommendations "would, on balance, make this tragic [hunger] problem yet worse." Among the groups signing the statement were the National Conference of Catholic Charities, the American Baptist Churches, the Presbyterian Church USA, the Lutheran Council, the Episcopal Church, the Women's Division and the General Board of Church and Society of the United Methodist Church, the United Church of Christ, the Union of American Hebrew Congregations, the League of Women Voters, the American Association of Retired Persons, the National Council of Senior Citizens, the National Council on the Aging, the National Urban League, the League of United Latin American Citizens, the National Education Association, the American Public Health Association, and others.

I believe that most of these organizations would commend a number of the individual Task Force proposals. But, the recommendations regarding "autonomous food programs" and error rate sanctions could yield such unfortunate results that the overall impact of the Task Force proposals would be decidedly negative on poor families. Hopefully, the Congress will set these adverse proposals aside.

"Autonomous Food Programs"

There are a number of serious problems with the recommendation to authorize states to establish "autonomous food programs."

First, the autonomous food program approach would inevitably make food stamps and child nutrition programs less responsive to need and would result in hardships during periods of economic recession. Under the current food stamp program, more food stamps are automatically provided in a state if unemployment rises and more persons become poor in the state. Similarly, more children in a state can automatically receive free school meals if unemployment rises. The key feature here is that a needy family or a poor child has an entitlement to these benefits. If the family or the children are needy enough to qualify, they are assured of receiving benefits regardless of what state they live in.

Under the autonomous programs, however, the entitlement to individuals would end. States would receive fixed amounts of funds. If the amounts proved insufficient, benefits would have to be cut or needy persons left out of the programs.

This is especially important. The number of persons needing assistance fluctuates in a state as economic and demographic conditions change. It is simply not possible to design a fixed grant program that adequately meets changing needs.

The Task Force staff has attempted to respond to this issue by indicating that the amount of funds provided to each state could be varied quarterly or even monthly to reflect changes in state population, level of unemployment, and food prices. While such an approach is well-intentioned, it simply will not work. Monthly state unemployment rates are not known until 2-3 months after the unemployment rate actually rises or falls in a state. State unemployment rates for January, for example, will not be known until the middle of March. In addition, state population data is typically several years out of date. And there is no good source of information -- outside of the decennial Census -- on demographic shifts that can affect food assistance needs, such as changes in the number of elderly or children in a state. In short, this approach is incapable of assuring that when additional needy persons apply for food stamps or free lunches in a state, the funds will be there to meet the increased need on a prompt basis. (Similarly, this approach is unable to assure that other states do not receive more funds than they need.)

I would also note that a fixed grant program in which the allocations to states vary quarterly or monthly would be almost impossible for states to administer. Benefit levels and eligibility limits would have to be altered frequently, and on very short notice, as state allocations rose and fell.

Other problems with the autonomous food programs

There are numerous other basic problems with this proposal as well. The autonomous food programs are likely to lead to poorer management. Currently, states must lower food stamp error rates substantially or face major financial penalties. The autonomous food programs wipe out the penalties. Under the autonomous program approach, a state could have a high rate of fraud and waste -- and it would face no sanctions at all. The pressure to reduce errors would be off. Indeed, it is likely that some states with significant error rates would opt for the autonomous food programs precisely to escape federal fiscal penalties and the acute political embarrassment they can cause for state officials.

In addition, a matter of grave concern to religious and civil rights organizations is that the autonomous food programs could very well lead to benefit reductions for certain types of poor families who generally have little political clout (such as poor women and children in the South, many of whom are black).

The history of cash welfare programs bears this out. In these programs -- where benefit levels are generally set by the states -- women and children get substantially lower payments than the elderly and disabled, and two-parent and childless families frequently receive no benefits at all.

Today, there are 15 states in which a mother and two children with no other income receive less than $250 a month (or $3,000 a year) in AFDC payments. In one state, the payment is just $96 a month to a family of three with no income. And in over half the states, no AFDC benefits are provided to a family, no matter how poor it is, if both parents are present. There is every reason to fear that under the autonomous food programs, the same political factors would lead a number of states to reduce food benefits for families and children.

Moreover, one of the most outstanding features of the current food stamp program -- the fact that it automatically helps to narrow the gap among state welfare payment levels by providing more food benefits to mothers and children who are poorer because their state pays low welfare benefits -- would be lost.

As the 20 national religious organizations observed in their joint statement, when states set their own eligibility limits for food stamps in the 1960's, some states set eligibility cut-offs at only about half the poverty line. During the same period, many jurisdictions with school lunch programs failed to provide free lunches to poor children who could not pay for them.

The huge variations in food stamp income limits that prevailed in the 1960's (and the variations in the availability of free school lunches) were not related to differences in living costs. They essentially represented the political weakness of low income groups in certain states. These political factors -- which Richard Nixon successfully combated when he helped to establish national food program standards to alleviate the hunger problems he found -- should not once again be permitted to determine who gets enough to eat and who does not.

Error rate sanctions

In 1982, the Congress enacted an error rate penalty system authored by Senator Dole that required states to cut their error rates to 9% in FY

1983, 7% in FY 1984, and 5% in FY 1985 and subsequent years. States failing to do so would face very substantial fiscal penalties.

The Task Force, on the basis of virtually no evidence, recommended changing this system for FY 1985 and later years by prescribing a new formula that enlarges the fiscal penalties to be imposed on states with error rates above 5%. During the Task Force's debate of this issue, one Task Force member asked the Task Force staff for data on the size of the current sanctions -- and on how much the Task Force proposal would increase these sanctions. The staff responded that it had never compiled the data. The Task Force then approved the recommendation, anyway.

I believe this Task Force action was a mistake, based in part on lack of knowledge of the consequences of the recommendation.

The Task Force mistakenly believed that because the current error rate sanctions are currently computed as a proportion of state food stamp administrative costs, that the sanctions must be quite small. This is incorrect. The chart below shows what the total sanctions would be nationwide for FY 1983, FY 1984, and FY 1985, based on the latest state error rates published by USDA. This chart shows that if states do not lower their error rates, their sanctions will equal $220 million a year in FY 1985 and subsequent years. These numbers, which the Task Force members never had, show that assumptions that current sanctions are small are erroneous.

SANCTIONS UNDER CURRENT LAW -- NATIONAL TOTALS
(at current error rates)

	FY 1983	FY 1984	FY 1985
TOTAL	$36,504,000	$110,234,000	$220,312,000

Source: As calculated from error rates published in: Food and Nutrition Service, U.S. Department of Agriculture, Semiannual Summary Report of Food Stamp Quality Control Reviews: October 1981 - March 1982, Washington: October 1983.

The Task Force also lacked information on how much its proposal would increase these already substantial sanction levels. Using the same USDA published error rates, simple mathematical computation shows that under this Task Force recommendation, the sanctions would more than double. The sanctions would jump to $460 million a year in FY 1985 and future years under the Task Force proposal, if error rates held at current levels.

Clearly, a recommendation to legislate these rather huge increases in sanctions should not be taken lightly, and should be based on strong supporting evidence. The evidence, however, is not there:

- There is no data to show that larger sanctions are needed to get error rates down. Last year, when the Administration submitted a proposal to greatly increase the error rate penalties, CBO analyzed the proposal and concluded it would not result in lower error rates, just in bigger sanctions. CBO concluded that the current sanction system will spur states to take as much error-reduction activity as the heavier-handed Administration proposal would have, and that the principal effect of larger sanctions would be to shift costs to the states.

- There is no evidence that the current sanction system, designed by Senator Dole, is inadequate and needs to be replaced. High-ranking USDA officials recently announced that states are now making major progress in lowering error rates, and that 38 states had gotten their FY 1983 error rates below 9%, an increase of nearly 50% from the previous year in the number of states with errors below this level. Moreover, the current (Dole) system is yet to have its full effect. To date, the only error rate sanctions USDA has levied are the smaller sanctions that were used before the 1982 amendments were passed. The first actual financial penalties under the Dole system -- which has significantly bigger penalties than the system which preceded it -- have yet to be assessed.

Finally, altering the sanction system in the manner recommended by the Task Force could cause significant harm to needy families. When costs of this magnitude are shifted to the state welfare departments (which administer the food stamp program), the states must find some way to come up with the money. The most ready way for state welfare departments to finance the increased sanctions, and still stay within their departmental budgets, is to set AFDC payments lower than they would otherwise be. This is easily accomplished by allowing AFDC payments levels to fall farther behind inflation.

This outcome would truly be tragic. Congressional Research Service data show that AFDC payments fell 36% in real terms from 1970 to 1983. No other part of American society has fared so badly over the past decade as AFDC mothers and their children, who have lost a very large share of their purchasing power and have fallen deeper into poverty. The Task Force report itself acknowledges that the sharp decline in real AFDC payment levels has been one of the causes of increased hunger in the U.S. This recommendation, however, would make this unfortunate situation worse by leading to further reductions in real AFDC payments in some states that get hit with large sanctions.

Since the sanction levels under current law are already large, since the current law seems to be working in prodding states to reduce errors, since there is no evidence that the Task Force recommendation would drive error rates to lower levels, and since the most likely outcome of this recommendation would be cost shifts to states that in turn would result in reduced benefits for many poor families, I hope the Congress does not accept the recommendation.

WIC Funding

The final Task Force recommendation that I believe is troublesome is the recommendation to freeze the WIC caseload at its current level. WIC still reaches a minority of those low income women, infants and children who qualify for the program, and some local areas still have no WIC program at all. Since the WIC program began operations in 1974, the program has been steadily expanded by the Congress so that it gradually could reach an increased proportion of those pregnant women, infants and children eligible for the program. I would urge that this process continue.

Other recommendations

Having criticized several Task Force recommendations, I do want to reiterate that most other Task Force recommendations are positive. While some of the recommendations do not go far enough, I think that if the adverse proposals (the block grant and error rate proposals, as well as the call for a WIC freeze) are set aside, enactment of the remaining proposals would represent progress in combatting hunger in this country.

APPENDIX A

FOOD PROGRAM REDUCTIONS PROPOSED IN FY 1985 BUDGET

The following are the reductions from current services proposed for domestic food assistance programs in the Administration's FY 1985 budget.

Food Stamps	- $592 million*
Child Nutrition	- 49 million
WIC	- 217 million**
TOTAL REDUCTIONS	- $858 million

*The Administration is proposing $592 million in food stamp reductions, as USDA's budget briefing materials note. The Administration is also proposing cuts of over $600 million in AFDC -- and the USDA briefing materials note that this will result in a $218 million increase in food stamp benefits for AFDC families whose incomes have been reduced by the AFDC cuts. The net change in food stamp costs is thus $374 million, which appears in tables in some of the budget documents. However, the $218 million increase will only occur if the proposed AFDC cuts are enacted and has nothing to do with the changes proposed in the food stamp program. The changes proposed for food stamps, by themselves, represent savings of $592 million.

**The Administration has proposed $1.254 billion for WIC in FY 1985. The Congressional Budget Office estimates that $1.471 billion is needed to maintain current service levels. The difference is $217 million. This is consistent with the Administration's budget documents. Page 3-28 of the Budget of the United States shows that the proposed funding level for WIC in FY 1985 is a $200 million reduction below current services levels.

APPENDIX B

ADMINISTRATION BUDGET WOULD TERMINATE 500,000 - 1,000,000 WOMEN, INFANTS AND CHILDREN FROM THE WIC PROGRAM IN FY 1984

The Administration's new budget contains deep cuts in the Special Supplemental Food Program for Women, Infants, and Children (WIC). The cuts would occur in both fiscal year 1984 and fiscal year 1985.

The deepest cuts would occur in the latter months of FY 1984, when between 500,000 and 1,000,000 low income pregnant women, infants and children at nutritional risk would be terminated from the program. This would occur because the Administration has failed to request the full amount of supplemental funding needed to carry the WIC program throughout FY 1984. Substantial cuts would also occur in FY 1985.

The WIC Cuts in FY 1984

Last fall, Congress made clear that its WIC policy for FY 1984 was to fund the program at the level necessary to maintain the year-end FY 1983 caseload, which was 3.0 million persons. In the Continuing Resolution, Congress appropriated $1.06 billion for the WIC program for the first 9 1/3 months of the fiscal year (October 1, 1983 - July 10, 1984). This worked out to an annual rate of $1.36 billion -- the amount which the Congressional Budget Office reported was needed (along with some unspent funds from FY 1983) to maintain the year-end FY 1983 WIC caseload and to avoid reductions in this caseload in FY 1984.

Congress made clear that it expected to provide a supplemental appropriation at a later date to fund the program for the remainder of the fiscal year, and explicitly directed the Administration not to reduce caseloads and not to remove participants from the program. The Conference Report to the Continuing Resolution stated:

> "The conference agreement provides $1,060,000,000...for the period October 1, 1983 through July 10, 1984 and assumes a fiscal year 1984 appropriation level of $1,360,000,000. The appropriation of $1,360,000,000, combined with funds carried over from fiscal year 1983...should be sufficient to maintain the fiscal year 1983 year-end caseload."
>
> "Any action...to spread the $1,060,000,000 appropriated herein beyond July 10, thereby reducing participation, would be in direct violation of the intent of the conferees."

In accordance with this legislation, WIC participation has been maintained at the 3 million level since October.

In its new budget issued on February 1, however, the Reagan Administration failed to request the $300 million needed to carry WIC through the end of the fiscal year. Instead, the Administration requested a supplemental appropriation of only $167 million.

- The USDA budget states that under the level of funding the Administration has proposed, the WIC program would serve 2.8 million persons in FY 1984. The 2.8 million participation figure, however, is an average monthly participation figure for the 12 months of FY 1984. We are already into the fifth month of the year, and participation has been maintained at 3 million persons for all months until now. In order to get average participation for the year down to 2.8 million persons, WIC participation would have to be cut deeply -- far below 2.8 million persons -- for the latter months of this fiscal year.

- Moreover, the statement that the Administration's funding request would be sufficient to serve an average of 2.8 million persons is itself incorrect. To reach an average of 2.8 million persons with the funding the Administration has requested (including funds carried over from last year), WIC food costs would have to average just $30.33 per person in FY 1984. But USDA has already reported that WIC food costs averaged $30.61 in October and $30.82 in November, the first two months of the fiscal year -- and food costs are expected to rise (not fall) for the rest of the fiscal year. There is no way that WIC food costs can average as little as $30.33 per person for FY 1984. Only 60 days ago, USDA issued an estimate that WIC food costs would average $31.14 for the year, a far more reliable figure (if anything, this figure may also be low since it allows just 1% for food price inflation over the WIC food costs reported for November). At this rate, a monthly average of 2.73 million persons could be served under the Administration's funding request, not 2.8 million.

The Administration's proposed WIC policy would be drastic. If the current WIC caseload of 3 million persons is maintained (as the law requires) until the $1.06 billion currently appropriated runs out in early July, then a severe crisis will hit next summer. The supplemental funding the Administration has requested would be so inadequate that 1 million women, infants, and children at nutritional risk would have to be dropped from the program in July, August, and September. This would be necessary to keep within the funding level the Administration has requested (and to bring average participation for the year down to 2.73 million).

Even were Congress immediately to authorize WIC caseloads to be reduced sooner, to respond to the Admnistration's proposal, the results would still be extraordinarily severe. If caseloads began to be cut on April 1, then more than 500,000 women, infants and children would have to be terminated for the last six months of the fiscal year to stay within the Administration's funding levels.

Conclusion: The Administration's budget would entail terminating between half a million and 1 million poor pregnant women, infants and children from the WIC program later this year.*

The Administration's Proposed WIC Budget for FY 1985

For FY 1985, the Administration has proposed a WIC funding level of $1.254 billion. This is $217 million (or 15%) below the $1.471 billion figure that the Congressional Budget Office has said is needed to maintain the WIC program at its current level of service during fiscal 1985.

The Administration has said that its FY 1985 proposed funding level would serve an average of 2.7 million persons. In reality, the proposed funding level would probably serve fewer persons than this. The Administration has used an unrealistically low food cost-per-person estimate for FY 1985 -- an estimate that allows for food price inflation of less than 2% over the level USDA estimated, in December, that WIC foods would cost in FY 1984.

In addition, the Administration has assumed enactment of a new legislative proposal that would cut the proportion of WIC funds that go for nutrition education, medical tests, and general administration. Since current federal funding for these expenses is below the actual costs of performing these tasks in most states (and reductions could hamper state abilities to provide program benefits to participants and to administer the program properly), this proposal is not likely to be approved by Congress. If it is not approved, then the Administration's requested FY 1985 funding level would be sufficient to allow only 2.55 million persons to be served in FY 1985 (using food price assumptions that are more in line with CBO forecasts).

Conclusion: The Reagan FY 1985 budget request for the WIC program represents a $217 million cut below the CBO current services estimate and would allow 2.55 - 2.7 million women, infants, and children to be served in FY 1985, a reduction of 300,000 - 450,000 below the number of persons currently served.

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*Even under the faulty Administration estimate that an average of 2.8 million persons could be served in FY 1984, WIC participation would have to be cut by 800,000 persons in July, August, and September (or by 400,000 persons for the last half of the fiscal year if Congress acted to institute cutbacks as early as April).

APPENDIX C

MAJOR TASK FORCE RECOMMENDATIONS AND THE ADMINISTRATION BUDGET

Task Force	Administration budget
Maintain WIC caseload	Major reductions in WIC caseload
Increase food stamp benefits to 100% of thrifty food plan	Leave food stamp benefits where they are
Raise food stamp assets limits to allow more of unemployed to get assistance	Leave assets limits where they are
Retain workfare as an option of state local governments	Make workfare mandatory nationwide
Retain state error rate tolerance at 5%; increase penalties on states with errors above 5%	Bill states for errors above 3% (a provision considered and and rejected by the Task Force)
Authorize block grants in which grant levels are adjusted to reflect food price inflation	Establish a child nutrition block grant that does not increase when food prices go up

Senator GRASSLEY. We now turn to Dr. Rosenberg.

STATEMENT OF DR. IRWIN ROSENBERG, PRESIDENT, AMERICAN SOCIETY FOR CLINICAL NUTRITION

Dr. ROSENBERG. Mr. Chairman, I am grateful for this opportunity to participate in this discussion of the problem of hunger and malnutrition in America, and I am much encouraged by the concern for these problems, exemplified by these hearings.

After I finished my medical training, I had the opportunity to participate in a number of public health nutrition surveys in parts of the United States and in several foreign countries. Those surveys, under the aegis of the Interdepartmental Committee for National Development, eventually formed the basis for our own Hanes Health and Nutrition Survey. And it is very gratifying to me to see that there is increasing concern in this country with the nature of the information that we need to make our decisions.

I would like to take my few minutes to focus on the task assigned to me, which is to reflect on our understanding of the problem of hunger and malnutrition in America, and particularly on the information available.

I should say that I have modified my testimony somewhat from the draft which was originally submitted, and I will submit those modifications later, if I may.

As the task force report noted, a basic issue impinging on the evaluation of the extent of hunger and malnutrition in America is the question of how we use those terms. This is not an abstract exercise in semantics, but rather, a critical feature of the analysis, since programs must be designed to respond to defined problems.

I claim no special wisdom in proposing some operational terms, but I will suggest that the ways in which we use these terms can and must direct our fact-gathering strategies and determine subsequently how we will set our goals.

DEFINING HUNGER

How should we measure hunger? Hunger is at once the most common and broadly descriptive term, and the most difficult to define specifically.

The task force report gives both the physiological and clinical approach to the definition of hunger, and also recognizes the definition that includes some of the behavioral and social associations.

In simplest terms, hunger can be defined as "inadequate access to food for short or long periods of time." There are both acute and long-term consequences of the lack of adequate access to food. Some of the short-term consequences of hunger include irritability, disinterest, and apathy, as the monumental study of Dr. Keyes showed some years ago.

There are behavioral changes—studies of schoolboys, 12 and 14 years old, showed that even a lack of a breakfast regularly showed evidence of a poorer attitude, poorer scholastic record, and some changes in work output.

Thus, there are effects of hunger that can affect work performance and behavior. It is more than just a sensation.

In the longer scale, hunger, or lack of energy or calories, can result in failure to grow normally for children, and loss of weight in adults.

Still, the assessment of the problem is not made on the basis of these physiologic or behavioral observations, but instead on a more direct documentation of the prevalence of food deprivation, or lack of access to food, its distribution and its frequency.

There are sophisticated and detailed survey techniques that provide us with this kind of information, which can certainly raise the level of our understanding from anecdotal information, and I do believe that more of the modern survey techniques could be brought to bear on the question of what percentage of our population and what distribution of our population are having inadequate access to food.

ASSESSING MALNUTRITION

The question of malnutrition is different in some ways. There are two general ways of approaching an assessment of this problem in any population. Both methods are in use in this country, in an intensive, but highly intermittent way. The first is the assessment of the intake of food and nutrients—by location, age, sex, and according to certain economic and social factors. The prototype of this kind of information is the National Food Consumption Survey, which is carried out at roughly decade intervals, the latest being in 1977 and 1978, by the Department of Agriculture. This survey does identify those households, and less so, those individuals, which are at risk of nutritional deficiency on the basis of inadequate or imbalanced diet.

One major challenge which we face currently is to predict effectively the nature of that risk based upon comparing food intake data to the recommended dietary allowances which are regularly put forward by the Food and Nutrition Board of the National Academy of Sciences.

A second major approach to assessment of malnutrition is to measure the clinical and physiological consequences of undernutrition as exemplified in the Hanes or Health and Nutrition Survey, which also, heretofore, has been carried out on an intermittent schedule. The second Hanes was completed in 1980. Here, we would define malnutrition in terms of the clinical presentation of undernutrition, in the form of anemia, growth retardation, underweight. And for the purposes of this discussion, I am avoiding consideration of overweight as a different form of malnutrition deserving our consideration; bone disease, rickets, vitamin and mineral deficiencies.

Increasingly, we recognize that all three kinds of information are more meaningful when supported by the others. There is, after all, a predictable, but by no means absolute, sequence of events, which leads from hunger, inadequate access to food, to nutritionally inadequate diet, to nutritionally induced physiological or functional deficits, or malnutrition. The additional value of using the terms in regard to the kinds of data that we are collecting is that it is precisely upon such data that we will build, and later assess, our preventive programs.

Programs that are directed at problems of access to food will not be identical to programs directed at nutritional inadequacy, or they certainly may be overlapping. Programs directed at nutritional adequacy of diets, which may include educational programs, food fortification, et cetera, will not be identical to programs directed at diseases caused by malnutrition, which may require both preventive and therapeutic interventions.

DEALING WITH THE PROBLEM OF HUNGER AND MALNUTRITION

Using these fairly widely accepted definitions, we can now turn again to the question of how we are doing as a nation in the problem of hunger and malnutrition. The task force report refers to some of the limitations in our data base. Although the report states certainly that there is some hunger in this country, the report states that we cannot be entirely sure of its extent, its distribution, nor are we entirely sure of the trends.

Our information on the nutritional adequacy of American diets is based on studies which were completed in the late 1970's, and our information on the health consequences and nutritional patterns was collected also in the last decade, with the exception of the Hispanic Hanes survey, which is currently underway, and will not be processed for another year.

The data from the communicable disease center, which monitors some health measures in relation to some locations of the WIC program, is more current, but certainly not comprehensive.

I cannot help recalling a New York Times headline a couple of years ago, commenting on some significant cuts in Federal support for the Federal statistics program. The headline read: "Cuts in Data Imperil Data on Cuts."

Where does that leave us in respect to policy decisions now, regarding hunger. If our information from various states and private food assistance programs and maternal and child centers indicates that there is hunger, but we are not sure of its extent, can we afford the luxury of waiting until our statistics are fully adequate before making sure that there are effective programs in place to provide food assistance to those who need it?

To wait would be inconsistent with the principles stated in the task force report and in their orientation, that any amount of hunger in this nation is intolerable, and thus, deserves some programmatic attention. We could even ask where the burden of proof lies—with those who cite evidence of an increasing hunger problem and suggest more action, or those find the evidence inconclusive.

PROGRAMS CANNOT BE WITHHELD FOR IRONCLAD EVIDENCE

I would argue that we can no more afford to withhold programs until there is ironclad evidence of malnutrition and disease, which would be both inhumane and far more costly in the long run, than we can afford to wait until there is documented disease and disability from potentially harmful agents in the environment before we take action against their use. For that matter, we would not be willing to wait to build our defense decisions only after direct evidence of a clear and present danger to our security.

So if there is enough evidence that there is a hunger problem of some magnitude, and there is evidence that food assistance programs have lessened the impact of that problem, and the contrast between the 1968 and 1978 USDA surveys, which show a narrowed gap between the higher and lower economic groups are persuasive to me in that regard, then I think we must act to make sure that our food assistance programs are strong and responsive.

I would say parenthetically, with all respect to the recommendations of the task force, that I would feel much safer if that response were funded, coordinated and administered at the Federal level, rather than by local or State discretion and autonomy if we are to maintain a fair and consistent program with uniform nutritional standards throughout this country.

In regard to malnutrition, the task force report, referring largely to the data which was collected in the Seventies, concluded—and I quote—"These surveys have not uncovered any major problems deriving from undernutrition."

This raises a similar question of what is the appropriate threshold of response, or what is the acceptable level of problem which can be tolerated without a programmatic response. In the 1977 to 1978 national food consumption survey, at least one-third of individuals were reported to be taking in diets below 70 percent of the recommended dietary allowances for four nutrients: calcium, iron, magnesium, and vitamin B-6.

This does not prove that these individuals are malnourished. It just talks to the question of some increased risks.

According to a Health and Human Services report in 1983, iron folic deficiency was common among pregnant women; 10 to 15 percent of infants of migratory workers and certain rural poor are growth-retarded due to dietary deficiencies. In a recent review of the evidence from the Hanes survey, anemia was found in 5.7 percent of infants, and there was also low birth weight found in 12.5 percent of blacks and 5.7 percent of whites, while infant mortality was present in 21 percent of blacks and 11 percent of whites.

Recently, in Chicago, there was a study at the Cooke County Hospital of those who were seen in the pediatric clinic there, and that study showed that 30 percent of the children who were seen there were less than 10 percentil of height and weight for their age and prediction.

If 5 percent of infants and young women are anemic, with probably iron deficiency, and 12.5 percent of infants are low birth weight in the black population, are these small and not major problems, or are these, in fact, heavy public health challenges, demanding a multifaceted preventive response?

This becomes a matter not of the adequacy of the data, but of the attitude toward what is acceptable and tolerable, and what is the perceived role of the Federal in all of this? The burden of proof, I am arguing, must lie at least as much with those who say we can afford to weaken our support program as with those who argue that we need to act more aggressively to prevent malnutrition and disease.

NUTRITION MONITORING SYSTEM FAVORED

This leads me to my final point, which has to do with projecting the adequacy of information upon which to base program decisions in the future

I am strongly supportive of the bill which was recently introduced in Congress to establish a nutrition monitoring system which would permit us to evaluate the current status of our population over reasonably short-term trends. The need for such a system has been argued for some years in Congress, but progress has been slow. Our present lack of definite data, and even the need for the task force itself, may be an argument for setting up a monitoring system. We have the know-how and the resources to do this. In addition to the USDA food consumption survey and the Hanes survey apparatus, which could go on a continuing basis, albeit with a much greater degree of selectivity, we also have the strong resources of the Communicable Disease Center, the five USDA human nutrition laboratories, the seven clinical nutrition research units funded by the NIH, and many nutrition programs in universities.

I have little doubt that a system could be worked out which would be most helpful to decisionmakers and program evaluators, using these powerful intellectual resources in the Government and in the universities—nor do I think we need to wait the time that would be necessary to mount a full scale program—the estimate is that that program could not be full scale until 1977—before we proceed with a national nutrition plan with goals based on the data-gathering apparatus which we are creating. I think such a national nutrition plan is also overdue, as is the national monitoring system.

In closing, Mr. Chairman, I am encouraged that the Senate Budget Committee is showing such intensive concern with the problem of hunger and malnutrition. I am persuaded that there is justification for continuing and strengthening the Federal programs designed to prevent malnutrition and its health effects.

We need especially to emphasize both the health education as well as the food distribution aspects of those programs.

Finally, a vigorous short- and long-range plan to improve our data on hunger and malnutrition in America will not only serve the needs of those who must make policy, but will also serve greatly the health of the American population.

Thank you.

Chairman **Domenici**. Thank you, Dr. Rosenberg.

[The prepared statement of Dr. Rosenberg follows:]

TESTIMONY FOR SENATE BUDGET COMMITTEE HEARING ON RECOMMENDATIONS OF THE PRESIDENTS TASK FORCE ON FOOD ASSISTANCE

February 7, 1984

Irwin H. Rosenberg, M.D.

Biographical Sketch

Professor of Medicine and Director of the Clinical Nutrition Research Center at the University of Chicago. Current President of the American Society for Clinical Nutrition. In July of this past year, completed a two-year term as Chairman of the Food and Nutrition Board of the National Research Council/National Academy of Sciences. Medical school degree and post-graduate training in Internal Medicine, Gastroenterology, and Nutrition were obtained at Harvard Medical School. As a fellow in the U.S. Public Health Service at the National Institute of Health, assigned to the cInterdepartmental Committee on Nutrition for National Development (ICNND) and participated in ICNND nutrition surveys on Indian reservations in the United States, in Burma, and designed and directed a comprehensive health and nutrition survey involving 40,000 inhabitants of East Pakistan, now Bangladesh. Currently Chairman of the United States-Japan Joint Panel on Malnutrition.

I'm grateful for this opportunity to participate in these discussions of the problem of hunger and malnutrition in America and I am much encouraged by the concern for these problems exemplified by these hearings. You have already heard a discussion of the findings of the Presidents Task Force on Food Assistance and are certainly aware of some of the difficulty in arriving at appropriate conclusions which can guide a wise and humane federal policy in the field of human nutrition. I would like to take my few minutes to focus on the task assigned to me, to reflect on our understanding of the problem of hunger and malnutrition in America and particularly on the information available to measure these problems.

As the Task Force report noted, a basic issue impinging on the evaluation of the extent of hunger and malnutrition in America is the question of how we use those terms. This is not an abstract exercise in semantics but rather a critical feature of the analysis since programs must be designed to respond to defined problems. I claim no special wisdom in proposing some operational terms, but I will suggest that the ways in which we use these terms can direct our fact gathering strategies and determine how we set our goals. How should we measure hunger? Hunger is at once the most common and broadly descriptive term and the most difficult to define specifically. In simplest terms, hunger can be described as inadequate access to food for short or long periods of time. Hunger is more than a sensation. There are both acute and long term consequences of the lack of adequate access to food. Some of the short term consequences of hunger include irritability, disinterest, and apathy as shown in Keyes' classic works. Studies of the behavior of 12-14 year old boys have shown that without a regular breakfast there was a poorer attitude, scholastic record, and work output. Thus there are effects of short term lack of access to food which can affect work performance and learning. The effects of chronic food deprivation, especially inadequate calories or energy are failure to achieve normal growth and stature in children and weight loss in adults. There are sophisticated survey techniques available to provide us with better than antecdotal information on the prevalence of such food deprivation, its distribution, and its frequency. More of these methods could be brought to bear on this question of distribution of the problem of hunger and food deprivation.

If we turn to the second term, malnutrition, we note that chronic food deprivation will lead certainly to malnutrition. There are two general ways of approaching an assessment of this problem in a population. Both methods are in use in this country in an intensive but highly intermittent way. First is an assessment of the intake of food and nutrients by location, age and sex, and some economic and social factors. The prototype for this kind of information is the National Food Consumption Survey which is carried out at roughly decade intervals, latest 1977-78, by the Department of Agriculture. This survey does identify those households, and less so, those individuals, which are at risk of nutritional deficiency on the basis of inadequate or imbalanced diet. One major challenge which we face currently is to predict effectively the nature of that risk based upon comparing food intake data to the Recommended Dietary Allowances which are regularly put forward by the Food and Nutrition Board of the National Academy of Sciences. Another major approach to assessment of malnutrition is to measure the clinical and physiological consequences of under nutrition as exemplified in the HANES or Health and Nutrition Survey which has also, heretofore, been carried out on an intermittent schedule most recently in 1980. Here we would define malnutrition in terms of the clinical presentation of under nutrition in the form of anemia, growth retardation in children, under weight (for purposes of this discussion I am avoiding consideration of over weight as a different form of malnutrition), bone disease such as rickets, and vitamin or mineral deficiencies which may be represented in physical findings or changes on laboratory tests.

Increasingly we recognize that all three kinds of information are more meaningful when supported by the others. There is, after all, a predictable, but by no means absolute, sequence of events which leads from hunger or inadequate access to food, to nutritionally inadequate diets to nutritionally induced physiological or functional deficits or malnutrition that is, disease. The additional value of using the terms in regard to the kinds of data that we are collecting is that it is precisely upon such data that we build and assess our preventive programs. Programs that are directed at problems of access to food will not be identical to programs directed at nutritional inadequacy though they certainly may be overlapping. Programs directed at nutritional adequacy of diets including educational programs, food fortification, etc. will not be identical to programs directed at diseases caused by malnutrition which may require both preventive and therapeutic operations.

Using these fairly widely accepted definitions we could now turn again to the question of how we are doing as a nation. The Task Force report refers to some of the limitations in our data base. Although there certainly is some hunger in this country, the report states, we are not sure of its extent, its distribution, nor are we entirely sure of the trends. Our information on the nutritional adequacy of American diets is based on studies which were completed in the late 1970's and our information on the health consequences of nutritional patterns was collected also in the last decade with the exception of the Hispanic HANES survey which is currently underway and will not be processed for another year. The data from the Communicable Disease Center which monitors some health measures in relation to some locations of the WIC Program is more current but certainly not comprehensive. I can't help recalling a New York Times headline a couple of years ago commenting on substantial budget cuts in Federal statistics programs: "Cuts in data and imperil data on cuts."

Where does that leave us in respect to policy decisions now regarding hunger. If our information from various states and private food assistance programs and maternal and child centers indicates that there is hunger but we are not sure of its extent, can we afford the luxury of waiting until our statistics are fully adequate before making sure that there are effective programs in place to provide food assistance to those who need it. To wait would be inconsistent with the principle stated in the Task Force report that any amount of hunger in this nation is intolerable and thus deserves some programmatic attention. We could ask where the burden of proof lies, with those who cite evidence of an increasing hunger problem and suggest action or with those who find the evidence inclusive. I would argue that we can no more afford to withhold programs until there is iron clad evidence of malnutrition and disease (which would be both inhumane and far most costly in the long run) then we can afford to wait until there is documented disease and disability from potentially harmful agents in the environment before we take action against their use. For that matter, we would not be willing to wait to build our defense decisions only after direct evidence of a clear and present danger to our security. So if there is enough evidence that there is a hunger problem of some magnitude and there is evidence that food assistance programs have lessened the impact of that problem, and the contrasts between the 1968 and 1978 USDA surveys, especially the narrowed gap between the higher and lower economic groups, are persuasive to me in that regard, then I think we must act to make sure that our food assistance programs are strong and responsive. I would say parenthetically with all respect to the recommendations of the Task Force that I would feel much safer if that response were funded, coordinated, and administered at the Federal level rather than by local or State discretion and autonomy if we are to maintain a fair and consistent program with uniform nutritional standards.

With regard to malnutrition, the Task Force report, referring largely to studies performed in the 1970's, stated "these surveys have not uncovered any major problems deriving from under nutrition." This causes me to question once again the definitions of the Task Force in regard to what is considered a major problem, what can be tolerated without a programmatic response, or what is the appropriate threshold for a response. In the 1977-78 National Food Consumption Survey at least one-third of individuals were taking in diets which contained less than 70% of the Recommended Dietary Allowances for at least four nutrients, calcium, iron, magnesium and vitamin B 6. This suggests to me some degree of risk of malnutrition at that time even if we cannot be sure of the exact extent of that risk or of current trends. According to a 1983 report from the Department of Health and Human Services entitled 'Health and Prevention Profile - United States', iron and folate deficiency are common among pregnant women in the United States. Ten to 15% of infants of migratory workers and certain rural poor are growth retarded in relation to dietary deficiencies. A recent analysis of the HANES II date (1976-1980) on the prevalence and causes of anemia in the United States will appear in the March issue of the American Journal of Clinical Nutrition showing an incidence of anemia of 5.7% among infants, 5.9% among teenage girls and 5.8% among young women. The pattern of laboratory abnormalities in these anemic subjects indicated that iron deficiency predominated as the cause. According to the HHS report, 12.5% of all black infants are born at a low birth weight (less than 2500 gms.) and this is associated with an infant mortality among black infants of 21%. Among whites 5.7% of infants are born with low birth weights and the infant mortality among whites is 11%. In a recent study performed in Chicago in the Pediatric Outpatient Clinic of the Cook County Hospital, 30% of children under 2 years of age were smaller than the tenth percentile of standard for height or weight.

Are these not "major problems"? Indeed are these not heavy public health challenges demanding a vigorous and multifaceted preventive response? This becomes a matter not of the adequacy of the data but of theattitude toward what is acceptable and tolerable and what is perceived as the appropriate role of the Federal government. The burden of proof must lie at least as much with those who say we can afford to weaken our support programs as with those who argue that we need to act vigorously to prevent malnutrition and disease.

This leads me to my final point which has to do with projecting the adequacy of information upon which to base program decisions in the future. I am strongly supportive of the Bill which was recently introduced in Congress to establish a nutrition monitoring system which would permit us to evaluate the current status of our populations over reasonably short term trends. The need for such a system has been argued for some years in Congress but progress has been slow. Our present lack of definite data and even the need for a Task Force may be the most eloquent argument for setting up a monitoring system. We have the know how and the resources to do this. In addition to the USDA Food and Consumption survey and the HANES survey apparatus which could go on a more continuing basis (albeit with a much greater degree of selectivity) we also have the strong resources of the Communicable Disease Center, the five USDA Human Nutrition Laboratories and the seven Clinical Nutrition Research Units supported by HHS in addition to numerous Nutrition programs in our universities. I have little doubt that a system could be worked out which would be most helpful to decision makers and program evaluators using these powerful intellectual and technical resources in the government and in our universities. Nor do I think we need to wait the time that would be necessary to mount a full scale program (the estimate is 1987) before we proceed with a national nutrition plan.

In closing Mr. Chairman, I am encouraged that the Senate Budget Committee is showing such intensive concern with the problem of hunger and malnutrition. I am persuaded that there is justification for continuing and strengthening the Federal programs designed to prevent malnutrition and its health effects. And finally a vigorous short and longer range plan to improve our data on hunger and malnutrition in America will not only serve the needs of those who must make policy but will also serve greatly the health of the American population.

[Whereupon, Senator Domenici resumed the chair.]

DO NOT REDUCE NUTRITIONAL PROGRAMS

Chairman **Domenici**. Basically, you are saying do not reduce the nutritional programs; improve our methods of acquiring information, but do not take the chance of reducing them because we do not have enough information.

Dr. **Rosenberg**. That is certainly my attitude. I think there is sufficient information to indicate to us that we have a substantial problem and cannot afford to lessen our response to that problem.

Chairman **Domenici**. Senator Chiles.

Senator **Chiles**. No questions right now, Mr. Chairman.

Chairman **Domenici**. Senator Metzenbaum.

HUNGER IS WIDESPREAD AND INCREASING

Senator **Metzenbaum**. Dr. LaForce, we who try to provide some balance, are having difficulty with your report and the report that just came out today in the New York Times, that was funded by 13 foundations, including Polaroid and the Boston Globe. That report says that "Hunger has returned to America because of unemployment and Government policy," it goes on to say that hunger is widespread and increasing. It says that it is the result of "clear and conscious actions taken by Government leaders." It says, "We have found concrete evidence of hunger in every State we looked at. We found hunger, and it was not hard to find."

It says, "Hunger in America is no longer confined to traditional poor or to ethnic minorities. They have been joined by other Americans, those who were not poor and not hungry several years ago."

And then we have the Conference of Mayors—and that is a bipartisan group—and they say that as of January 1984, there was a 71-percent increase in demand for food assistance in 1983; 50 percent of the cities say they cannot meet the need; 70 percent of the cities expect the demand to increase in 1984. And the Harris survey says there are 21 million hungry Americans.

Now, first of all, there is a real question as to why the President needed a task force on hunger. The feeling of many is that every time there is a problem he does not want to deal with, that he appoints a task force.

COMMISSIONS CONCLUSIONS DIFFER

Now, he appointed your task force, and the basic question I have is: Did they load the dice, or did they give us a stacked commission, because your conclusions are so radically different from the conclusions of the Citizens' Commission which just reported today. You have a pediatrician on your Commission who was quoted in the Washington Post as saying that hunger is not a major problem, and that black children may be the best-nourished group in the country because so many are star athletes.

He probably ought to have been asked to resign after making that statement, because it is so absurd.

You have two public officeholders who are part of the administration crowd that presently hold public office, and three people who are members, past or present, of ultraconservative organizations and thinktank organizations. You have a member who also served as the chief costcutter of the Grace Commission, which recommended $7 billion in cuts in food stamps over 3 years. You have an ex-official of the OMB who helped put together over $1 billion in cuts for food programs in the fiscal year 1983 budget. You have a strong critic of Government public assistance programs, and two others appointed at the request of Senator Jesse Helms and Representative Robert Michel. Your only Democrat has be described as "Ronald Reagan's favorite Governor."

REPORT BALANCED OR UNBALANCED

I guess my only question is, do you think your commission's report can be accepted as a balanced report, and if you do think so, tell me how you would explain to the American people that which appears to this Senator as being a total lack of balance from just the appointees and who represented the poor and the public on that commission.

Dr. LaForce. I think I understand the question——

Senator Chiles. We can get him to repeat it, if you like. [Laughter.]

Dr. LaForce. Well, let me give an answer——

Senator Metzenbaum. What I am really saying is there is a total diversity, a total opposite conclusion reached by this commission that just reported today from your commission. And my question really, then, relates to the fact that is your reported tainted by reason of the fact that the appointees all seem to be coming from one segment of the political and economic spectrum?

That is very short.

Dr. LaForce. Well, first of all, I think that we did have a balance.

Senator Metzenbaum. You did have a balance?

PEOPLE ON COMMISSION REPRESENTED MANY POINTS OF VIEW

Dr. LaForce. Yes. We had people who represented many points of view, and we had plenty of vigorous discussions and arguments over various issues. We had several people who worked with the poor, who run and operate soup kitchens, and as you mentioned, there were people who were in the Government, obviously. We did have a pediatrician who, incidentally, speaks for himself and not for the task force. And the report, I think, is quote at odds with some of those statements that you made. As to the——

Chairman Domenici. Could I add one statement, with the Senator's permission—and besides, you could not possibly have read the report he was talking about, because it just came out this morning, so I think we ought to know that. I do not know what it says, and neither does Senator Metzenbaum.

Senator Metzenbaum. Well, I reported only on the conclusions.

Chairman Domenici. Well, the report in the New York Times. I have heard things from this gentleman today on his report that I never heard anywhere until I read his report.

THREE SEPARATE GROUPS HAVE OPPOSITE CONCLUSIONS

Senator **METZENBAUM.** Well, let me say that there are three separate groups that have come to an opposite conclusion. One was the New England study which says that hunger is widespread and increasing, and that is the one that we are talking about.

Then, there was the mayor's conference, that gave a totally separate conclusion. And then, there is your conclusions.

Now, these two are diametrically opposed to yours, and frankly——

TOO MUCH HUNGER

Dr. **LAFORCE.** I am not sure that they are "diametrically opposed." We, I believe, concluded that there was a problem, that there was hunger, and the difficulty here that I think we all have is that we cannot quantify, precisely or even imprecisely, the amount of hunger. And our position is—and I think the position that we all share—is that there is too much. Even though it may be this much or that much in reality, if there were some way that we could actually measure the number of meals missed, and that we should move on to the solution of the problems and in the long run, attempt to find ways to monitor and measure the issue more precisely.

Now, again, Senator Domenici is right—I have not read the report. I did not read the paper this morning, or at least, that newspaper, so I cannot comment on what they said. But it does not sound as if it is diametrically opposed, because there is——

NATIONAL ORGANIZATIONS CHALLENGE CONCLUSIONS

Senator **METZENBAUM.** I think that is fair. I think maybe diametrically opposed is very much—arriving at a different conclusion. And wasn't there some bipartisan group that came out, after your report was made public, and challenged the conclusions of Mr. Greenstein, am I wrong about that?

Forty-two national organizations—didn't you just testify to that—forty-two national organizations challenged the conclusions of the report, or am I wrong about that?

Mr. **GREENSTEIN.** That was not a report, but there was a joint statement issued by about 43 organizations, and it did criticize the task force's findings on hunger as understating the problem. Primarily, that statement addressed the task force recommendations, but you are correct in noting that it did also address the issue of the findings. I do not think I have the statement with me, but I believe that it indicated a belief that many of the studies had not been taken seriously enough by the task force and that there was some understatement of the problem.

Senator **METZENBAUM.** I think what they said was:

> We deeply regret that the task force failed to provide a careful and balanced study of hunger in our country. Positive action is needed now so that low-income children, elderly persons and poor families do not have to go without food. The task force failed to move us toward this goal.

I think that was their statement, actually. So that there has been strong criticism by what I would consider somewhat objective groups.

Chairman **Domenici**. Senator Johnston.

BLOCK GRANT FOR CHILD NUTRITION

Senator **Johnston**. I am concerned about this recommendation for a block grant for child nutrition, the WIC program, et cetera. Now, you earlier testified that the proposed block grant would result in a 27-percent cut in food assistance by 1987. I take it that you would also conclude that by reducing so drastically assistance to pregnant women and infants and young children that the medical costs resulting from those cuts would probably outweigh the savings you would make from the 27-percent cut.

Am I not correct in that?

Mr. **Greenstein**. I think that could be correct, but let me distinguish. There are two separate proposals here. The administration, in its new budget, is proposing a block grant of two child nutrition programs, and the administration would freeze funding for this block grant and call to adjust the funding in accordance with changes in food prices in future years, so that by 1987 it would be a reduction, under the administration's own figures, of close to 20 percent.

COMBINE ALL FOOD PROGRAMS INTO BLOCK GRANTS

In addition to that, but distinct from that, is the task force recommendation, which is a somewhat different recommendation—a recommendation to authorize States to combine any or all of the food programs into block grant. Now, the task force proposal is not as harsh in the sense that it would adjust for food prices, so that there might not be a reduction is relation to current services.

However, the point I was making in my testimony on that was that in certain cases, such as during periods when need increases in a State because unemployment goes up rapidly or because of demographic shifts, the task force proposal would not respond in time; the Federal Government would not have the data on unemployment and demographic shifts in time to respond to the need. And therefore, in some States, there would not be the money that was needed. And the other point I was making about that is, let me take, for example, putting child nutrition programs and the WIC program together in a single block grant.

Now, if we want to talk in frank political terms, we all know that the education lobby is very powerful, and if you want to put food stamp recipients and WIC recipients up against the education lobby in a State, I think we know what is going to happen. The middle-income school districts are going to come away with more money, and the low-income people are going to be hurt.

SOME PROGRAMS NEED NATIONAL STANDARDS

We just have seen from experience. There are certain functions that I do believe the States should get. I believe in sorting out, but as with the Governors, not in these programs, not in income maintenance programs, and not in food assistance programs. We need national standards for those, or the poorest people who are the political weakest are going to be hurt.

One of the great things about the food stamp program, for example, as I think Senator Dole says when he calls it the most important program since social security, is that it has national standards, and it fills the gaps. And if you are poor, regardless of whether or not you have a particular family configuration or age, you can get food stamp assistance in any State. And I think that if we lost that—and that is why I feel so strongly about this—I think if we lost that—and I know the task force approached this with good intentions—but I think if we lost that, we would go far backward, 5, 10, 15 years down the road, in our effort to deal with hunger, and the poorest and most vulnerable groups—who are often poor children, as you are suggesting—I think would be the ones who are hurt the most.

MAINTAIN WIC PROGRAM AT CURRENT LEVEL

Senator JOHNSTON. I take it you do share my enthusiasm for the WIC Program.

Mr. GREENSTEIN. I do, and Senator, let me mention, because I do not think you were here when I mentioned it before, that I would make a plea to you and to Senator Chiles, and particularly to the chairman, because I think Republicans can be more helpful here—I am scared to death about what could happen with the proposal in the administration budget not to request an adequate supplemental for the WIC program this year. It would require half a million to a million people, women, infants and children, to be cut from the program this year, in 1984. And my fear is that the administration—I understand this is under consideration—that the administration may move before July to cut the funding that goes to the States to spread those cuts over a longer period. And if they move in the third quarter in April, we are talking about half a million people on WIC being cut from the program 60 days from now. And I would just hope that—although I know there is bipartisan support for this—I would hope that all members would, behind the scenes, urge the administration not to take this action and to comply with the directive of the Appropriations Committee, which I know you sit on, and to act in accordance with the recommendations of the task force, that the WIC caseload at least be maintained at its current level—I think it ought to be increased some, but at least for this year, to maintain it at its current level. And I know that you have been one of the most supportive members of the program over recent years.

KINDS OF PEOPLE WHO GO TO SOUP KITCHENS

Senator JOHNSTON. Thank you.

Can you tell me, Mr. Greenstein, who are the kinds of people who frequent the soup kitchens? We have had a big increase in Louisiana, lately. And by the way, I had a group in my office yesterday talking about housing, and we are not talking about housing here, but they are literally sleeping under the bridges in Baton Rouge, the group said yesterday, and there is a waiting list of something like 151,000 for public housing in the Baton Rouge area. And as I hear some of the comments that come out in the press today, I am reminded of that statement—I forget who made it, but it comes from the French Revolution—that says, "The law and its majesty prevents the rich and poor alike from sleeping under the bridge." Well, they are not being prevented from sleeping under the bridge in Baton Rouge now. They are doing it out in the coldest weather.

But can you tell me what kind of people go to the soup kitchens?

MORE FAMILIES WITH CHILDREN GOING TO SOUP KITCHENS

Mr. **Greenstein**. Well, I think we have a number of different types. You know, traditionally, up until a few years ago, I think it was mostly single individuals, not families. Some of them had drug or alcohol problems, or some mental problems; some of them had been deinstitutionalized.

However, we have not had in the last 2 or 3 years some massive increase in deinstitutionalization, or most likely, in drug or alcohol problems. But in the last 2 or 3 years, we have had a massive increase in the number of people going to the soup kitchens. A study commissioned by USDA says 60 to 70 percent; a nationwide statistical study our organization did find in over half the agencies surveyed, an increase from 1982 to 1983 of 50 percent.

I think the interesting question is who are these new people. Part of it is the recession. And the data does show, such as the New England data, an increase in the number of families with children coming to soup kitchens. And let me just try a quick explanation.

I think we sometimes forget that we have basic holes in our safety net. Today, fewer than two out of every five of the unemployed get unemployment insurance, according to the Labor Department data. It was 78 percent in 1975; it is under 40 percent today. And if you are a two-parent family with children in over half the States in this country, you cannot get welfare or medicaid, no matter how poor you are, because the father is there. So, if the unemployment insurance runs out, and you cannot get welfare, and you cannot get medicaid, how do you pay the rent?

Senator Domenici was talking about all the changes in the food programs. I think if we want to look at the root causes of hunger, we would have to go beyond the food programs and think about the fact that AFDC benefits have been cut 36 percent in real terms, not by anything the Federal Government did, but by States not keeping pace with inflation, and about these two-parent families who do not get covered in over half the States, and in addition, by some of the budget cuts not only in food programs, but in housing, and energy prices going through the roof. All these things together, I think, contribute to driving families out of their homes, under bridges, and into soup kitchens, so that it is not only the drug and alcohol and mental patients anymore. It is more than that.

PILOT FEEDING PROGRAM FOR SENIORS

Senator **Johnston**. One final question on WIC. In 1982, a pilot feeding program for seniors was begun in the New Orleans under the CSF, the commodity supplemental food program, for 1,600 below-poverty-level seniors. Within 3 months, we had a waiting list of over 8,000 certified eligible seniors, and the list has only continued to grow, indicating a very big problem.

What is the situation in other cities? Is it comparable to that?

Mr. GREENSTEIN. There are only three cities on that pilot—Detroit, DesMoines, and New Orleans, I believe—I think that is correct. The caseload is limited. I do not know for sure, but I would expect there are waiting lists in other areas.

Senator JOHNSTON. Or, other seniors, generally, not just where they have a pilot program.

Mr. GREENSTEIN. Oh, I see, yes. Those are the only three areas that have it. I think that we have a similar problem. I think the increases in people coming to soup kitchens and food pantries, and the hunger issue in general cuts across all age groups. It certainly includes elderly, as well as families with children and so forth.

Let me make one quick point I think you would be interested in. I do not know how the funding exactly works on this, but I notice in the new budget that in the regular CSF program, there is $13 million that USDA says it cannot spend this year and that it is going to carryover to next year and reduce the appropriation. And at the same time, the part of the CSF program for the elderly, as you say, has a waiting list.

So I know you are very interested, and it might be something to look into. It seems hard to explain why we are going to say we cannot spend $13 million that Congress has appropriated and have waiting lists at the same time.

Senator JOHNSTON. Thank you, Mr. Chairman.

GAO REPORT ON WIC LESS CONCLUSIVE

Chairman DOMENICI. Thank you, Senator.

I have not had a chance to review the GAO report, but it is at a minimum a lot less conclusive than many of us have been in our support, and I think it is important, since the GAO has a reputation for being out of this political arena. They could be dead wrong, but they say there is not as good evidence as they would like about its value. With reference to the WIC program, whether the President has put it in his budget or not, people can look at that, if he has not put in enough. We always have funded it fully in this Committee, and it is funded in this resolution. Not only is it funded fully, but I think Senator Chiles would concur that when we finished our work in compromising with the House, we left the appropriators plenty of latitude in the total domestic package to fund it fully. So we cannot say that there is going to be a supplemental, but we are surely going to work for it. We contemplated it, and there is still significant room within the budget on the domestic side. That does not mean we have to run out and spend it all with the kind of deficits we have got, but this Senator will do his share. We will work on the White House a bit to concur so we can include it in the supplemental.

Let me ask you a couple of questions with reference to——

Mr. GREENSTEIN. Would you like me to make a quick comment on the GAO WIC Study?

Chairman **Domenici**. Of course, of course.

FUNDING WIC

Mr. **Greenstein**. Let me just clarify one point on the WIC issue—on funding, first, very quickly.

I think both of you are members of the Appropriations Committee, if I am not incorrect.

Chairman **Domenici**. Yes.

Mr. **Greenstein**. And the Appropriations Committee has directed that the caseloads be maintained, in contemplation of a supplemental.

My fear is not that the Budget Committee does not have room, or anything like that. I am talking, really, not about legislative action, frankly, but behind-the-scenes action. If the administration were willing to act unilaterally to reduce the allocations in the third quarter and start reducing caseloads, that would be unfortunate. It would also seem to me to make no political sense in an election year, either. And I would simply hope that behind the scenes, the administration could be urged not to do that.

AREAS WHERE WIC HAS MOST IMPACT CONFIRMED

On the GAO report, I would like to submit something for the record. But let me say that, as you know, the GAO responds to requests that it gets. If one looks carefully at the request of GAO from Senator Helms, who has endeavored to cut the WIC program in the past, his letter to the GAO had asked them to comment on many areas, and frankly, I think a number of them were "straw men." There were areas where there had been no studies, and no claims had been made. No one had said there were studies directly connecting WIC with mental retardation.

What I find in reading the GAO report is that in some of the areas where it has been said that WIC has the most impact, if you carefully read the report, the GAO to a large degree confirms that.

REDUCTION OF LOW BIRTH WEIGHT DUE TO WIC PROGRAM

For example, the GAO say there were six studies of medium to high quality that found about a 20-percent reduction in the incidence of low birth weight directly due to the WIC program. Low birth weight, I believe, is 1 of the 10 leading causes of death in this country. That is a very important finding.

The GAO goes on and says that studies of good quality do show that when women are on the WIC program for only a month or two prior to delivery, WIC does not have very much affect on birth weight, but if they are on the program 6 months prior to delivery, it does. Now, that 20-percent figure is an average over all women, including those only on the program a month or two prior to delivery. Those studies that the GAO says are of good quality show that when women are on the program 6 months prior to delivery, there is even more than a 20-percent reduction in the incidence of low birth weight. And it further says that it does find evidence that in the highest risk groups, the impact is the greatest.

Now, what happens is—let me just say that low birth weight is correlated or associated with higher rates of mental retardation and disability. And that has been stated. But no one ever said, because it is very difficult and expensive to study, that there have been studies showing, for example, that WIC directly reduces mental retardation.

And so you get GAO saying that there are a number of areas where there is not much evidence, or where it has not been studied at all. And if you have to summarize it in a sentence or two, it makes it sound like there may not be that much there.

I would submit that a close reading of the GAO report shows that in some of the most crucial areas, especially low birth weight, that the evidence is fairly strong, and in fact, there is an editorial to this effect in Saturday's New York Times that I brought with me, thinking that you or someone might ask about this. And I would hope that that is looked at closely.

GAO ADOPTED UNFORTUNATE APPROACH IN ITS PROCEDURE

The last point I would make is that GAO adopted one unfortunate approach in its procedure. Early on, several members who were concerned, or their staffs, asked the GAO to be sure, after it had talked to people who had criticized flaws in the various studies, to be sure to talk to the principal researchers at the universities who had done these studies, the key studies, just to get their response, and the GAO said they would do that. In the end, the GAO never talked to the people who had done the principal studies, and it admitted in the report that it might have been more critical than it should be in some areas, because it did not have all the information.

Now, my understanding is that GAO says it did not have time to talk to those regardless because of the very tight time deadline Senator Helms put on GAO.

I will submit more, but I would urge that this low birth weight aspect of the report be looked at closely.

NUMBER OF ELDERLY CANNOT UTILIZE FOOD STAMPS PROPERLY

Chairman DOMENICI. Let me ask three or four quick ones, and then yield to Senator Chiles. Senator Chiles, I have to go when I am finished; if you do not mind closing the meeting, I have to inquire of Western Governors on the acid rain issue, where they are finishing their testimony.

With reference to food stamps, if I understand Dr. LaForce's group, their finding is that a number of the elderly who are on food stamps apparently cannot utilize the food stamps properly because of their state in life. The task force recommend two things—one, that we expand the utility so that they could buy meals instead of foodstuffs, or that they be permitted to cash out the stamps and thus have money to spend. Cash in the food stamp program in lieu of stamps for foodstuffs has been an ongoing discussion, but I am unaware that it has been as specifically targeted as this.

Would you comment on what you think about that recommendation?

Mr. **Greenstein**. Currently, the law allows the elderly to use food stamps at low-priced restaurants if the State licenses those restaurants. Many states do not, and I think it might make sense to encourage some more use of that. I have concern about the cash-out provision——

Senator **Chiles**. What about at senior centers, didn't we change that?

Mr. **Greenstein**. They can use them at senior centers.

Senator **Chiles**. They can use them at senior centers?

CASH-OUT RECOMMENDATION NOT FAVORED

Mr. **Greenstein**. Absolutely. But as you know, many of those senior centers have waiting lists. The elderly meals program is certainly not an entitlement. But they can use them at senior centers.

The cash-out recommendation, frankly, concerns me. I do not favor it, but for what may sound like a somewhat curious reason. That is simply that I believe very strongly that it is very important to maintain the same approach in the food stamp program to the elderly as to the nonelderly. The reason very simply—I am harkening back to this whole point—when we begin to start treating the elderly differently from the nonelderly, what happens at the State and the Federal levels, especially at the State levels, as a point of history, is that we treat the elderly more favorably and the women and children less favorably.

It is my belief that if we ever divided the food stamp program into those two components, that we would shortly see, the political winds being what they are, real declines in benefits for the women and children.

INFORMATION PROGRAMS ON FOOD STAMPS NEEDED

So I am troubled. I would suggest one other approach on the elderly, though. The Task Force did find—it is not in its report, but it is in one of the background papers—they cited a recent USDA study that found that one-third of the eligible elderly who did not participate in food stamps mistakenly thought they were ineligible, and another third did not know they were eligible. Now, particularly in regard to the elderly, I think we went too far in 1981 when we terminated all information programs. The President himself said in his statement when he set up the task force, he said, "Maybe some people do not know they are eligible. Maybe they do not apply"—something of that sort. If we are really concerned that we do not want one hungry child or one hungry elderly person, as the President said, shouldn't we have some information program? Everyone knows food stamps exist, but they do not know the rules——

MATCHING FUNDS FOR OUTREACH WERE ELIMINATED

Senator **Chiles**. I wonder if Dr. LaForce would comment on that, because the Commission did not address that issue of the restatement of the matching provision we used to have.

Did the Commission look at that at all as to the Outreach? In 1981, the administration recommended, and the Congress concurred by eliminating the Federal matching funds for Outreach.

Now that we are seeing that there are a number of people who, because they live in isolated rural areas or in ghettos or the like, do not seem to know they are eligible for the program.

Dr. **LaForce**. We did consider that and discussed it at length, but decided not to have it as an explicit recommendation.

Mr. **Greenstein**. Could I add one point, and Dr. LaForce will correct me if I am wrong. But at the end of the task force meeting, when they adopted the recommendations, one of the task force members, Mayor Berkley of Kansas City, offered a motion that outreach be added as a specific recommendation of the report. Several other task force members said, "We really do not need to have that as a specific recommendation because it is implicit in the report." Now, I am not sure exactly what that means, but when Congress has to consider it, you either have to take an explicit action, or you do not act at all.

But there was a discussion on the part of task force members that this was needed.

Senator **Chiles**. Well, this was not big bucks. How much money was it?

Mr. **Greenstein**. The Federal cost was $4 to $5 million a year.

Dr. **LaForce**. Did you feel they were effective?

OUTREACH HAD UNFORTUNATE HISTORY

Mr. **Greenstein**. Dr. LaForce has asked me if I think it was effective. I think it was a mixed bag. In some States and localities, it was quite effective, and in others, it was not It was my feeling that there was knowledge being gained on what was effective and what was not, at the very time that it was eliminated. There was an early period in Outreach—we had an unfortunate history. The Congress mandated it; the administration at that point did not implement it, and the courts took over. When the courts took over, we ended up getting into the situation where there were very detailed prescriptive requirements that made States unhappy, and Outreach got a little bit of a bad name because of that.

We do not have to go back doing it exactly the way we did before, but certainly, there are elderly shutins, or poor rural people, and now that we have evidence, which we did not have in 1981—we have studies since 1981, showing that there are people who mistakenly think they are ineligible.

But it seems to me—and I think if I remember right, I am repeating something you said at a hearing in 1975, Senator Chiles—it does not make sense to set eligibility and say certain people are truly needy and then not have them participate. If we think there are too many people in the program, or it is too large, you deal with the eligibility; you do not set up a program where some of those who need it most, through their own ignorance, are left out.

FIX ASSET LEVEL

Chairman **Domenici**. Let me ask one more question. In 1980, before the Omnibus Reconciliation Act, when you were still at the Department of Agriculture, the asset level was lowered from $1,750 to $1,500. It has been my experience—and I certainly did not conduct indepth hearings on this, nor have I studied it in depth—but it seems to me that the transition that is going on in this economy with reference to transients looking for work, longtime employed going through job training and long spells of unemployment, that they are the most adversely affected by the asset test, and that we ought to fix it.

Do you agree?

HUNGER PROBLEM NEEDS BIPARTISAN APPROACH

Mr. GREENSTEIN. I agree. I think we made a mistake in 1980. I wish so much we could get beyond this partisan situation, where the feeling is on the one side, the Reagan administration is blamed for the hunger problem, for all the food cuts, and on the other side—and I felt you did a little of this in your statement this morning—the view is that the cuts had nothing to do with it. The fact of the matter is, we had 3 years of cuts. They began when we were there in the Carter administration. The fact of the matter is that in the food programs, while the only people removed from the program were above 130 percent of poverty, about two-thirds of the cuts made in the Reagan administration, and most of those made in 1980 under the Carter administration, were achieved by lowering benefits for families below the poverty line. The fact is that The Urban Institute looked into this in more detail—they had more time than the task force—and has just issued a report saying that from 1979 to 1984, the average family's real food stamp benefit was reduced 14 percent. And the fact of the matter is, I think, that if we try and get away from this partisanship—and we can maybe do it by including the Carter cuts in there, as well—I think we did go a bit too far. And I think we further aggravated it by the fact that we all know that families have to spend more on food than just their food stamps, and when we raise rents, as we did in 1981, for all 3.5 million families in public and subsidized housing, that gives them a bit less to spend on food. When energy prices go through the roof, and we have kept low-income energy assistance frozen, the bills go up and there is less to spend on food. If the States reduce the medicaid services, and you more pay out of your own pocket, there is less to spend on food.

Food is often the most fungible expenses, and all these factors and cuts have been part of it, and we have all—in various administrations—been involved. I not only was involved in 1980; I worked with Senator Dole and others in 1981 and 1982. I think some of the things on we all worked did go too far. I can submit this for the record, but there is a longer discussion about all the numbers you discussed earlier, Senator, but it is hard to compare 1980 with 1983 when you only adjust for inflation, and you do not adjust for unemployment. Food stamps is going to go down about $1 billion or close to that from 1983 to 1984. I would be very unfair if I or anybody else said that Ronald Reagan had cut food stamps $1 billion in 1984. He has not; unemployment is going down. But by the same token, I do not think it is right to use the increase in 1983 that came from unemployment to kind of wash out some of the other changes we made.

The administration's budget does show that the number of people on food stamps for fiscal 1984 will be below the numbers on your charts for both 1980 and 1981. And it is also true that the number below 130 percent of poverty on the program is up from 1980 to 1982, but the number of people below the poverty line rose 5 million during that period from 1980 to 1982.

I am just saying the situation is more complex. We have made real cuts—CBO's studies show that—we have reduced benefits in real terms. We did that in 1980 and in 1981 and in 1982. We did it in other low-income programs as well as food programs, and now that we have evidence that there is a hunger problem, we ought to look at it on a bipartisan basis and do what we can, recognizing the spending restraints we all operate within.

HUNGER PROBLEM WILL REMAIN

Chairman **Domenici**. Well, I offer those numbers and charts not because I disagree that there is a hunger problem, but I feel very strongly that we will have a hunger problem even if we increase food stamps. I think we will have a hunger problem even if we go back to paying for 185 percent of poverty on school lunches. I think there is some relationship we are missing that we have got to discover Maybe it is something totally new. It may be AFDC, as you suggested, or something else.

Mr. **Greenstein**. I think we can lessen the problem, though, when we find every study shows that the number of people coming to the soup kitchen and the food pantries multiply substantially toward the end of the month. And if we lower the amount of money people have to spend on food, whether it be through food stamp benefit cuts in real terms, AFDC falling behind inflation, raising rents in public housing, whatever it is, when we do those things, we should not be surprised that there are more people who run out earlier in the month. And the studies I have seen suggest that a majority of the people coming to some of these emergency food pantries as opposed to soup kitchens are people on food stamps, and their total resources for food, not just their food stamps, but their total resources, are running out before the end of the month. And I think that steps such as—it is very marginal, but going from 99 to 100 percent of the thrifty food plan—is one little step, in which maybe you get through another half a day toward the end of the month. I think we ought to do more than that.

But to the degree that we do provide a little more adequate income through the means-tested programs for those low-income people, they will be more able to get through the whole month and eat adequately, rather than only until the 23d or 25th or 26th day. So I think there is a relationship.

TEMPORARY FOOD STAMP ELIGIBILITY FOR NEW POOR

Senator **Chiles**. Well, the task force report focuses on the plight of the new poor, particularly those individuals who become unemployed, but whose assets are still above the limits in the food stamp program and have mortgages or other obligations to pay. The permanent increase in the asset limits in the food stamp program which is high enough to take care of these ineligible people would certainly be very costly.

The task force report recommends moderate rises in the asset level for food stamp eligibility, but would still leave many of the new poor ineligible.

Couldn't we write the law to grant some temporary eligibility for food stamps to some of the new poor? For example, John Driggs, a member of the task force, has recommended in testimony before the joint House-Senate committee in January, that waivers of food stamps assets limits be granted for an emergency period for those recently unemployed individuals. I would like to hear from you, Dr. LaForce, and then all of the panel members on that point.

Dr. LAFORCE. Well, I really do not know how you can calculate what would be the level of assets that would take care of the problem.

Senator CHILES. The thrust of my question is that we are not looking at some permanent level—you have made some recommendations in your report—but that we look toward some temporary waiver to try to focus on these group of new poor that everybody recognizes is out there as a result of the recent recession.

Dr. LAFORCE. Well, of course, that is an alternative, and it is a question, I think, that you would have to make on the basis of targeting the populations you are talking about, and whether or not that is the best use of these resources that are going to go into the program. We did not go for that, clearly. We did not discuss it extensively. I think that John came up with that. That was the first time he had mentioned it, I believe, at that meeting.

Senator CHILES. Mr. Greenstein.

BENEFITS BASED ON THRIFTY FOOD PLAN

Mr. GREENSTEIN. I think there is some merit to that. It would help some of the additional new poor. It would also bring in some people who are not in need of food stamps, which would be inevitable if you had just a complete temporary waiver. And I think therefore, knowing the budget constraints that we all operate under, my recommendation would be that if there were the funds to do that, even for a temporary period, I think there are other things that could be done, in my judgment, that would be more helpful. I mean, I would very much agree with the task force recommendation on raising the assets limits, but in terms of a temporary waiver, I guess I could mention two or things that in my view would be more important and better-targeted, because they would not spread the money over some of those who do not need it as well as some of those who do.

For example, the task force has mentioned that there really is not any basis for having food stamp benefits set lower than the cost of the thrifty food plan. I agree with that. The problem we are about to face in the coming year——

Senator CHILES. Let me ask you this. Is there agreement that the thrifty food plan is adequate?

Mr. GREENSTEIN. Let me give you two parts to that answer. The first part is that even if one feels it is adequate—I personally do not—but even if one feels it is adequate, we have the following problem.

Benefits for fiscal 1985 are going to be based on the cost of the thrifty food plan in June 1984. Every forecast—CBO and others—tells us that starting about June, food prices are going to rise rapidly—we are going to have food stamp recipients throughout fiscal 1985 getting food stamp benefits that are only about 95 percent—not 99, but about 95 percent or less—of the cost of the thrifty food plan throughout that year. That is a problem.

In some States, such as States that put sales taxes on food, they already get about 95 percent, and it would go down to 90, when food prices rise.

FOOD CONSUMPTION SURVEYS

If there were additional funds to spend, my first choice would be to keep those benefits closer to 100 percent of the real cost of the plan and not have it lag behind. Now, I think beyond that, when you look at the food consumption surveys that Dr. Rosenberg has referred to, what they show is that only one out of every six food stamp households whose food expenditures equal the cost of the thrifty food plan get the recommended daily allowances. That suggests to me that the dollar level may not be adequate enough. Most food stamp households in the past, or many, have supplemented and spent more than that. That does not mean that five out of every six food stamp households were not getting an adequate diet; about half got the RDA's recommended daily allowances, and half did not in the late seventies, and the way you got from one-sixth to one-half was that people were spending more than the cost of the thrifty food plan on food. And my sense is that as energy prices went through the roof, and AFDC payments fell, and medicaid got cut some, and unemployment hit, that people were less and less able to supplement that thrifty food plan, and that that is one of the key reasons why we are seeing more hunger at the end of each month.

Also, I am concerned—and these are smaller cost items—that those women who are working women who entail childcare costs, the way we have the deductions set up in the food stamp program at present, CBO data shows that about three-quarters of what they spend on childcare never gets deducted, but is assumed to be available for food. That can be fixed for about $15 million. And in some parts of the country, we continue to hear that the shelter deduction is inadequate, and that for those with very high heating bills, the food stamps are insufficient.

So I would look at all those areas before a temporary waiver on the assets.

Senator **Chiles**. Dr. Rosenberg.

Dr. **Rosenberg**. Well, I do not have any direct information to share with you beyond Mr. Greenstein's on the issue of waiver. I would simply comment that it takes an extraordinary degree of sophistication to utilize the resources in this thrifty food plan and to accomplish an adequate dietary intake under the best of circumstances, and it is very rarely accomplished, as Mr. Greenstein indicated. Anything which changes the percentage of that thrifty food plan, I think progresses further from a safer distribution of dietary intake.

Senator CHILES. We want to thank you very much for your appearance here today. I think the testimony of all of you has been beneficial in trying to shed more light than heat on this subject. It is obviously something on which we need to get more information and understanding.

We thank you very much for your appearance.

We will recess the hearings now until 1:30 this afternoon.

[Whereupon, at 11:40 a.m., the committee was recessed, to reconvene at 1:30 p.m. this same day.]

WRITTEN QUESTIONS FROM SENATOR BIDEN TO WITNESSES AND THE RESPONSES

QUESTIONS TO MR. GREENSTEIN

NUTRITION EDUCATION

Question 1. Everyone I talk to, regardless of their level of support for federal food programs, seems to think a major reason beneficiaries run out of benefits before the end of the month, or buy foods that are not properly educated. Yet, this administration has always opposed nutrition education programs. Do you believe nutrition education has a role to play in Federal food assistance programs? How could an effective education program be structured?

Answer. I believe nutrition education has a role to play in federal food assistance programs and that more nutrition information can and should be provided to food stamp recipients. I would suggest that the Congress consider ways to integrate the provision of more nutrition information into the food stamp program (such as by providing nutrition education hand-outs to recipients).

However, I think we need to be careful not to overstate the degree to which lack of nutrition education results in beneficiaries running out of benefits before the end of the month. I would question whether this is a principal reason for the "end-of-the-month" problem. USDA studies show that food stamp recipients, on average, are actually better shoppers than the other households. USDA data conclusively show that food stamp households get more nutrients for their food dollar than other households. In addition, government studies show that food stamp households spend a smaller proportion of their food budget on snacks than other households.

The main reason beneficiaries run out of food before the end of the month is that their incomes and food stamp benefits are so low, rather than that they lack nutrition education.

SOUP KITCHENS

Question 2. The Center on Budget & Policy Priorities released a report last year showing a 50% increase in people being served by food pantries and a 35% increase in people served by soup kitchens. I spoke recently with Brother Ronald Giannone who runs a pantry in Wilmington, Delaware providing meals to the poor and homeless. He said he served twice as many people in 1983 as in 1982, and that the trend has continued thus far this year. Is brother Ronald's experience typical for the Nation as a whole? Who are the people accounting for the increase?

Answer. Our survey at the Center on Budget and Policy Priorities covered increases in emergency food programs from February 1982 to February 1983. While we have not conducted a formal survey on the period since February 1983, reports and studies in specific geographic locations indicate that this pattern of increase has continued since early 1983. Two recent reports that provided information on continued increases are the report of the Citizens Commission on Hunger in New England and a recent study issued by the U.S. Conference of Mayors.

In our study at the Center, we found two principal elements underlying the increase—high rates of unemployment and increases in the number of food stamp recipients running out of food before the end of the month. Both our study and the report of the Citizens Commission on Hunger in New England found evidence that the proportion of families with children seeking aid has increased.

QUESTION TO DR. ROSENBERG

NATIONAL NUTRITION POLICY

Question. The proposal has been made that federal food assistance programs be converted into a block grant. However, it seems to me that nutritional needs are pretty similar whether you are in Delaware, Illinois or Oregon. The need for a national nutrition policy was recognized as early as the 1940's when the school lunch program was strengthened to provide ⅓ of the Recommended Daily Allowance for Vitamins, etc. That, I am told, is because many of the men showing up for service in World War II were anemic. Thus, there is a certain "national security" element to this. In your view, does it really make any sense to have 50 different nutrition policies in this country?

UNIVERSITY OF CHICAGO,
CLINICAL NUTRITION RESEARCH CENTER,
Chicago, Ill., March 7, 1984.

Senator JOSEPH R. BIDEN, Jr.,
U.S. Senate, Committee on the Budget, Washington, D.C.

DEAR SENATOR BIDEN: Because of a delay in the US mail the request from Senators Chiles and Domenici for responses to your questions could not meet the March 1st deadline before closure of the record of the Senate Budget Committee Hearing on February 7th. I do wish to respond, however, to your perceptive question directed to me. I have serious reservation about the wisdom and effectiveness of changing the Federal Food Assistance Programs to a system of block grants to the States. Mr. Greenstein pointed out during the hearings that the financial situation in the states is such that one can predict with near certainty that Food Assistance Programs would suffer seriously from such a shift. Your question to me explores the nutritional logic of such a move. There is no nutritional logic in a move to block grants to the states. Instead of a series of local programs based on local politics, we need badly a national nutrition program which puts into place the very best information which we have about nutritional needs and the most effective way to meet those needs. Nutritional requirements are not regional. There are certainly local areas of special need in many parts of the United States and our proposed nutritional system must take into account the needs to monitor areas at special risk. But the techniques of monitoring should be techniques employed on a national scale and the responses should conform to a national plan and meet nutritional standards that are set within that national plan.

As a concerned member of the medical and nutrition community I'm very grateful to you for your interest. Please let me know if I can help in any other way.

Sincerely yours,

IRWIN H. ROSENBERG, M.D.,
Professor of Medicine, Director, Clinical Nutrition Research Center.

REPORT OF THE PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE

Preface

The President's Task Force on Food Assistance was established on September 8, 1983, by Executive Order 12439. The mandate of the Task Force, as expressed in the Executive Order is as follows:

> "The Task Force shall analyze Federal and other programs intended to render food assistance to the needy and shall make recommendations to the President and the Secretary of Agriculture with respect to how such programs may be improved. The Task Force shall submit its report to the President within ninety days of its first meeting."

James Clayburn LaForce, Jr. of Los Angeles, CA was chosen by the President to chair the Task Force. The remaining members come from all regions of the country, and from many walks of life. The organizational meeting of the Task Force was held on September 27, 1983, in Washington, D.C.

Our report and recommendations were presented to the President on January 10, 1984, following a meeting on January 9 in which the report and recommendations were discussed and voted upon. The report was adopted unanimously by the Task Force. Some of the recommendations were adopted with dissent as indicated in the voting record, presented in Appendix B of the Report.

In carrying out our work, the Task Force held hearings and formal meetings in seven cities around the country: Los Angeles, CA (October 13 and 14); Kansas City, MO (November 14); Peoria, IL (November 15); Atlanta, GA (November 16); Houston, TX (November 17); Jackson, MS (November 18); and Boston, MA (December 2). Summaries of each of our nine public meetings are included in Appendix C.

The Task Force wishes to extend thanks to its staff, headed by Executive Director John Raisian. The staff prepared several working papers to aid our deliberations, which are included in Appendix D.

EXECUTIVE SUMMARY

Introduction

- The American people take seriously their moral and social obligation to assist those who are in need.
  - We show this through our support of both private and public assistance efforts.
  - Since the 1960s, federal food assistance programs have become quite extensive. In spite of this, there are claims of widespread and growing hunger generally attributable to the recession and recent program changes.
- The President formed this Task Force to analyze the food assistance programs. The Task Force has taken several steps.
  - We have held hearings in seven cities; we have visited many food assistance outlets all over the country; we have consulted with experts and read relevant material.
  - We have solicited input from anyone willing to help us in our task. We have contacted hundreds of people throughout our investigation.
- Because the issue before us was a complex one, we found some elementary distinctions crucial.
  - Hunger is distinct from poverty. Although a hungry person is likely to be a poor person, not all poor people are hungry.
  - Those who rely on food assistance constitute a heterogeneous group with widely varying problems.

I. The Social Safety Net

- The total federal safety net consists of many different programs.
  - In FY 1983, the federal government spent over $430 billion on total income transfers in the form of cash, goods, and services, representing half the federal budget.
  - Around $26 billion went to food, housing, and energy assistance.
  - Around $305 billion went to direct income maintenance (including social security).
  - The remaining $96 billion went to health, education, and other services.
- Food assistance programs have become a substantial part of the federal safety net programs.
  - In 1969 the nation spent $1 billion on food assistance; in FY 1983, this had grown to $19 billion.
  - The Food Stamp Program is the largest program with expenditures in FY 1983 of over $12 billion. Over 21 million people received benefits in an average month.
  - The School Lunch Program is largest among the several child nutrition programs with an expenditure of over $2 billion in 1983 (more if direct commodity donations are included); around 23 million children participated in the program on an average school day.
  - Approximately $800 million (plus commodities) is spent on the remaining child nutrition programs: School Breakfast, Special Milk, Child Care Food, and Summer Food.
  - More than $1 billion was spent on food supplementation for approximately 2.5 million pregnant women, infants, children.

  - The Nutrition Program for the Elderly provides commodities or cash worth about $100 million to local food programs for congregate feeding and meals on wheels.
  - Over $1 billion was spent on direct donations of commodities either to charities or individual recipients.

- In addition to federal assistance, state and local governments provide substantial amounts of aid.
  - States share in the cost of some national programs, such as AFDC and Medicaid.
  - States pay part of the administrative costs of some programs.
  - States and local governments provide direct assistance, mainly in the form of general assistance. These programs vary substantially between states and local areas.
  - Certain cities attempt to deal with specific problems, such as the homeless.

- There is an extensive network of private organizations engaged in food assistance and other relief programs.
  - Soup kitchens, shelters, and food pantries give goods and services directly to those in need. They usually assist anyone who requests aid.
  - There is an extensive and growing network of food banks which solicit donations from food producers, wholesalers, and retailers.
  - Private food assistance organizations have grown both in number and in size in recent years.

II. Populations of Concern

- There are three main groups of concern. These groups are not all-encompassing but are representative of most poor Americans.
  - The traditional poor, notably female-headed households, and the elderly.
  - The new poor, those who recently have suffered from extended periods of unemployment.
  - The homeless, or street people.
- The official poverty rate has increased in recent years.
  - The unadjusted poverty rate has gone from 11.6 percent in 1979 to 15 percent in 1982. The adjusted rate (including non-cash transfers) has gone from 8.7 to over 10 percent in the same period.
- The Traditional Poor:
  - Poverty rates for the elderly have shown a secular decline over the past twenty years, and the decline continued during the last recession.
  - About 51 percent of all female-headed households with dependent children are below the official poverty line. Around two-thirds of these families receive AFDC and Medicaid, and a greater proportion receive food stamps.
- The New Poor:
  - Unemployed people face difficult problems if their unemployment insurance benefits run out.
  - They often have assets, so some are not eligible for food assistance programs; in addition, they often have fixed payments, such as mortagages.
  - The new poor are a small minority of the poverty population.
  - Approximately 20 percent of households experiencing unemployment fall into poverty.

o The Homeless:

- The number of homeless individuals is estimated to be between 500,000 and two million. They are not a homogeneous group.
- Roughly one-third have been previously institutionalized in a psychiatric facility.
- Many are regular users of alcohol or drugs.
- There are many veterans among the homeless.
- There is evidence that economic dislocation in the last few years has contributed somewhat to the growth in the number of the homeless.
- The homeless are primarily the responsibility of the state and local governments. In conjunction with the private sector, states should be encouraged to help this tragic group.

III. Federal Food Assistance Programs

- We have analyzed the food assistance programs to determine how they work, who they serve, and how they have been changed in recent years.

- In general, the availability of benefits provided by the major food assistance programs has not been reduced for poor households in recent years. Benefit reductions for participating households have been relatively small.

- Our specific findings are as follows:

- Food Stamp Program:

  - Roughly 9 percent of all Americans participate in the Food Stamp Program. Eligibility depends on incomes and assets. Food stamps are issued to supplement food expenditures. Benefits are tied to the cost of a basic diet (the Thrifty Food Plan).

  - Roughly 60-65 percent of all those who are eligible participate in this program. While some deserving and eligible individuals are not served by the program, a good deal of such non-participation occurs as a matter of choice by less-needy families.

  - The program changes enacted in 1981 and 1982 did not cause a decline in participation for households with incomes below the poverty line. Participation fell somewhat among families with incomes above the federal poverty line. Benefit reductions were quite small.

  - The Food Stamp Program is inordinately complex and has undergone an extraordinary number of changes over the years. The net result is a burdensome system for establishing eligibility and payment levels and high error rates. The program is not responsive to local and specialized needs.

  - Rules do not permit participation by certain low-income groups. State regulations limit participation by the homeless in 19 states. The asset test limits eligibility among the new poor but is usually effective in screening out less-needy families.

- The separation of administrative responsibility from liability for overpayment errors has also contributed to excessive error rates in the system.

o Child Nutrition Programs:

- The School Lunch Program is means-tested. Poor families pay nothing; near-poor pay a reduced price; others pay "full price." All lunches are subsidized to some extent. More than 50 percent of all school children participate.

- The program changes enacted in recent years do not appear to have reduced participation in the free or reduced-price school lunch program within the poverty population. Participation in the full-price school lunch program declined among higher-income families.

- Changes in the eligibility criteria for school breakfasts parallel those made in the school lunch program; in addition areas where "severe need" subsidies are available have been limited.

- The Child Care Food Programs have been cut back due to a reduction in the number of daily meals per child that can be subsidized, and due to a reduction in the level of subisidy.

- The family day care portion of the Child Care Food Program is very poorly targeted at low-income families.

- The Summer Food Program has been cut back due to a tightening of restrictions on the areas where free food is made available. Restrictions on the kinds of local sponsors allowed to run the program have been introduced.

- Each of the child nutrition programs exhibits a marked variation in availability and/or participation across states and even across counties within states.

- Special Supplemental Food Program for Women, Infants and Children (WIC):
  - Food supplements for women, infants, and children are given if recipients are poor and are found to be at nutritional risk. Vouchers are issued for specific commodities, such as milk and fortified cereals. This is not an entitlement program.
  - Funding levels and particpation in this program have grown rapidly in recent years.
  - There have been many evaluations of WIC performed; the results are not definitive so a large-scale reevaluation is currently underway.
- Nutritional Program for the Elderly:
  - Food assistance for the elderly comprises congregate feeding and meals-on-wheels. These programs are not means-tested and are available to people over 60 years of age.
  - Funding has continued to increase for this program; participation has remained level since 1980.
- Price Support Programs and Commodities Distribution:
  - The distribution of commodities has grown sharply in recent years: Commodity donations for charitable organizations have increased 100 percent since 1979. Over $1 billion in commodities are being distributed directly to households under the Special Commodities Distribution Program, which began in 1982.
  - The low-income population would be better served by a policy that would let farm prices reach market levels than by continued distribution of surplus commodities that are accumulated under the existing price-support system.

IV. The Role of the Private Sector

- Private soup kitchens, food banks, and food pantries constitute an integral part of the nation's food assistance safety net.
  - The existence of such organizations does not imply the failure of federal programs. Instead, the private-sector is often more efficient in meeting specialized or localized needs.
  - Private programs are successful in reaching the homeless, who often refuse to participate in complex and impersonal public welfare programs.
- The federal and state governments attempt to maintain a legal environment conducive to private-sector activity.
  - In recent years federal legislation has been enacted to encourage food donations through enhanced tax deductions. Due to a recent IRS ruling, however, there is some current uncertainty regarding valuation of food donations for tax purposes under current tax laws.
  - State Good Samaritan laws limit liability of individuals who in good faith donate food to charity.
- A partnership between public and private institutions has developed in some food assistance efforts.
  - The USDA has long supported private-sector feeding efforts through its donations of commodities for charitable organizations. Such donations have grown rapidly in recent years.
  - More than $90 million has been appropriated in the past year for distribution by a national board of private charities to local organizations.
  - Programs of cooperation between defense installations and local food banks have been established.
  - A Task Force has been formed in HHS to help facilitate federal support for private programs aiding the hungry and homeless.

V. The Extent of Hunger in America

- Any attempt at estimating the extent of hunger should distinguish between two interpretations of the concept.
  - The word hunger is used by health professionals to indicate physiological problems of undernutrition;
  - It is used by most people to also indicate someone's inability--even occasionally--to obtain adequate amounts of food.
  - The Task Force has attempted to examine both concepts of hunger.
- There is little systematic evidence of widespread or increasing undernutrition in the United States.
  - Data from the Centers for Disease Control indicate that there are no major public health problems among low-income children with regards to growth or anemia.
  - The Department of Health and Human Services indicates that nutrient deficiencies are not a major problem for the U.S. population.
  - The major group which may suffer clinical symptoms of undernutrition is the homeless. Very little is known about their health status.
- The Task Force has heard much convincing testimony and seen evidence regarding the continued existence of hunger, in the commonly used sense of the word.
  - There is hunger in America; this is an intolerable situation. However, the number of such hungry people cannot be definitively measured.
  - Current survey methods cannot reveal the number of hungry individuals who, for various reasons, cut back on food but do not show clinical symptoms.

- The indicators that have been advanced do not accurately reflect the extent of the hunger problem. These indicators also do not necessarily show that increased needs are not being met.

  - The number of people officially defined as poor has risen; participation in the Food Stamp Program and spending for the program have gone up in response to the increased need.

  - There has been an increase in the number of people seeking assistance from private sector sources, and in the number receiving aid. Both need and services have gone up. Recent tax laws changes, increases in federal commodity donations, and the development of new forms of private assistance have enhanced the private sector's ability to serve the needy.

  - Many people run out of food stamps at the end of the month. This reflects the fact that the program is not intended to pay for all food costs--except for households with no income. Food stamps are designed to supplement food expenditures.

  - Participation in available programs is not universal among eligible households. We find that participation is highest among the neediest groups. People who do not participate often do so by choice.

- We cannot report definitive evidence on the extent of hunger as it is commonly defined. Nevertheless, we have found certain steps that can be taken to improve federal and private programs so that those in need are served better. We do not suggest that anyone be complacent about the hunger problem simply because the problem cannot be quantified with complete accuracy.

- There may never be a simple or comprehensive answer as to how much effort in the food assistance area is sufficient. We believe that our recommendations would provide an incremental improvement to current problems.

HEALTH

WEDNESDAY, FEBRUARY 22, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 9:46 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Andrews, Symms, Grassley, Kasten, Chiles, Biden, Riegle, and Exon.

Staff present: Stephen Bell, staff director; Jan Lilja, senior analyst for human resources group; and Tony McCann, analyst for health programs.

For the minority: Richard N. Brandon, staff director; and Kathy Deignan, senior analyst for health.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. The hearing will please come to order.

Secretary Heckler, on behalf of the members of the committee, I would like to welcome you to this morning's hearing. As you know, this hearing will focus on the health—related portions of your Department's budget. This area of your 1985 budget is projected to be about $102.6 billion, or over one-third of your Department's $290 billion, which includes social security and medicare.

While the Department of Health and Human Services funds many health care services and programs, medicare is by far the largest. I am sure that the members of this committee will remember how medicare spending was out of control prior to 1981. Between 1976 and 1981, medicare was growing at an annual rate of about 18 percent. The hospital insurance portion grew at 17.4 percent, almost 17.5 percent; the medical insurance portion at 19.6 percent.

REDUCTIONS MADE IN MEDICARE

We have made a modest $2.3 billion reduction in medicare. That was enacted under the leadership of Senator Long in 1980. By 1982, it was clear that reforms were needed in medicare if it was going to avoid bankruptcy.

As part of the Tax Equity and Fiscal Responsibility Act, and the Social Security Amendments, major reforms were enacted in the way medicare reimburses hospitals. No longer does medicare provide incentives to hospitals to spend money by raising their costs; rather, a set fee was established for each of the 467 separate procedures, giving hospitals an incentive to reduce costs. The impact of this change and other smaller ones has been dramatic. The growth in the hospital portion and the insurance portion was 17.4 percent from 1976 to 1980, and is now down to 13 percent. Yet, even with this slowing, medicare will grow from about $42.5 billion in fiscal year 1981 to almost $70 billion, $69.5 billion, in 1985.

Projected growth in medicare through 1989 is even slower, about 11.9 percent. The reduction in medicare growth has been accomplished by sharing the burden of reform among beneficiaries, hospitals and physicians. Fifty-one percent of that reduction was achieved by providing provider reimbursement—most of it dealt with hospitals, as you know—another 25 percent was achieved by increased revenue through coverage charges; and about 23 percent, through increases in costs to the beneficiaries.

Of course, medicare is not solved; the problems they have are with us, but I think they have been moved out a bit. Our best estimates are, if things go reasonably well, we are talking about the early nineties, as a serious revenue versus expenditure time period.

RAPID GROWTH OF SUPPLEMENTAL MEDICAL INSURANCE IS A CONCERN

Of more immediate concern is the rapid growth of the supplemental medical insurance portion of medicare. The hospital portion is growing at a declining rate; the supplemental medical insurance portion continues at close to its pre-1981 levels. The medical insurance portion of medicare will double tween 1984 and 1989, amounting to over $37 billion by that time.

I have some additional facts, but I would just close by saying that the reforms that have been enacted to this time have stimulated states to adopt innovative programs. Some of them are focusing on medicaid alone, such as Arizona and California; some, on all-payers, including private health policies, such as New York, Massachusetts, and others.

The remainder of my remarks and facts with reference to growth and the like will be made a part of the record, and I will now yield to my good friend from Florida, Senator Chiles, and then we will get right to you, Madam Secretary.

[The prepared statement of Chairman Domenici follows:]

PREPARED STATEMENT OF CHAIRMAN DOMENICI

MADAM SECRETARY, ON BEHALF OF THE MEMBERS OF THE COMMITTEE, I WOULD LIKE TO WELCOME YOU TO THIS MORNING'S HEARING. AS YOU KNOW, THIS HEARING WILL FOCUS ON THE HEALTH RELATED PORTIONS OF YOUR DEPARTMENT'S BUDGET. THIS AREA OF YOUR FY 1985 BUDGET IS PROJECTED AT $102.6 BILLION, OR OVER ONE-THIRD, OF YOUR DEPARTMENT'S TOTAL FY 1985 SPENDING OF $296.0 BILLION .

WHILE THE DEPARTMENT OF HEALTH AND HUMAN SERVICES FUNDS MANY HEALTH CARE SERVICES AND PROGRAMS, MEDICARE IS BY FAR THE LARGEST.

I AM SURE THAT THE MEMBERS OF THIS COMMITTEE WILL REMEMBER, HOW MEDICARE SPENDING WAS OUT OF CONTROL PRIOR TO 1981. BETWEEN FY 1976 AND 1981, MEDICARE WAS GROWING AT AN ANNUAL RATE OF 18 PERCENT PER YEAR. THE HOSPITAL INSURANCE PORTION GREW AT 17.4 PERCENT A YEAR WHILE THE MEDICAL INSURANCE PORTION GREW 19.6 PERCENT. WHILE A MODEST $2.3 BILLION REDUCTION IN MEDICARE WAS ENACTED UNDER THE LEADERSHIP OF SENATOR LONG IN 1980, BY 1982 IT WAS CLEAR THAT REFORMS WERE NEEDED IN MEDICARE IF THE PROGRAM WAS TO AVOID BANKRUPTCY BY AS EARLY AS MID 1983.

AS PART OF THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT AND THE SOCIAL SECURITY AMENDMENTS OF 1983, MAJOR REFORMS WERE

ENACTED IN THE WAY MEDICARE REIMBURSES HOSPITALS. NO LONGER DOES MEDICARE PROVIDE INCENTIVES TO HOSPITALS TO SPEND MONEY BY RAISING THEIR COSTS. RATHER, A SET FEE WAS ESTABLISHED FOR EACH OF 467 SEPARATE PROCEDURES--GIVING HOSPITALS A STRONG INCENTIVE TO REDUCE COSTS.

THE IMPACT OF THIS CHANGE, AND OTHER SMALLER ONES HAS BEEN DRAMATIC. THE GROWTH IN THE HOSPITAL INSURANCE PORTION OF MEDICARE HAS DECLINED FROM 17.4 PERCENT PER YEAR BETWEEN FY 1976-1981 TO 13.0 PERCENT PER YEAR BETWEEN 1981-1985. YET EVEN WITH THIS SLOWING OF GROWTH, MEDICARE WILL GROW FROM A $42.5 BILLION PROGRAM IN FY 1981 TO A $69.3 BILLION PROGRAM IN FY 1985. PROJECTED GROWTH IN MEDICARE THROUGH 1989 IS EVEN SLOWER--ABOUT 11.9 PERCENT.

THIS REDUCTION IN MEDICARE GROWTH HAS BEEN ACCOMPLISHED BY SHARING THE BURDEN OF REFORM AMONG BENEFICIARIES, HOSPITALS, AND PHYSICIANS. DURING THE 1981-83 PERIOD 51 PERCENT OF MEDICARE REDUCTIONS WERE ACHIEVED BY CHANGES IN PROVIDER REIMBURSEMENTS MOST OF WHICH DEALT WITH HOSPITALS. ANOTHER 25 PERCENT OF REFORMS WERE ACHIEVED BY INCREASED REVENUES THROUGH EXPANDED COVERAGE OF THE PROGRAMS, AND ONLY 23 PERCENT WERE ACHIEVED THROUGH INCREASES IN COSTS TO BENEFICIARIES.

OF COURSE, THE MEDICARE PROBLEM IS NOT SOLVED. BANKRUPTCY HAS BEEN DELAYED BUT STILL LOOMS IN THE EARLY 1990s. OF MORE IMMEDIATE CONCERN IS THE CONTINUING RAPID GROWTH OF THE SUPPLEMENTAL MEDICAL INSURANCE PORTION OF MEDICARE. WHILE THE HOSPITAL INSURANCE PORTION IS GROWING AT A DECLINING RATE, THE

SUPPLEMENTAL MEDICAL INSURANCE PORTION CONTINUES AT CLOSE TO ITS PRE-1981 LEVELS AND THE FEDERAL CONTRIBUTION TO SUPPLELMENTAL MEDICAL INSURANCE PORTION OF MEDICARE WILL DOUBLE BETWEEN FY 1984 AND FY 1989--AMOUNTING TO OVER $37 BILLION BY THAT TIME.

MEDICAID, THE SECOND MAJOR COMPONENT OF THE HEALTH BUDGET, HAS SHOWN SIMILAR MODERATION IN THE COST INCREASES. DURING THE 1976-81 PERIOD MEDICARE WAS GROWING AT 14 PERCENT PER YEAR, WHICH STRAINED BOTH STATE AND FEDERAL BUDGETS. AGAIN, THE IMPACT OF THE REFORMS ENACTED IN FY 1981 WERE DRAMATIC. GROWTH IN THE PROGRAM IS NOW 11 PERCENT PER YEAR, YET SPENDING WILL STILL GROW FROM $16.8 BILLION IN FY 1981 TO A PROJECTED CURRENT SERVICES LEVEL OF $23.4 BILLION IN FY 1985.

THE MEDICAID REFORMS HAVE STIMULATED THE STATES TO ADOPT INNOVATIVE PROGRAMS--SOME FOCUSING ON MEDICAID ALONE, SUCH AS ARIZONA AND CALIFORNIA--AND SOME FOCUSING ON ALL PAYERS (INCLUDING PRIVATE HEALTH INSURANCE POLICIES), SUCH AS NEW YORK, MASSACHUSETTS AND OTHER STATES. AS THE INTERGOVERNMENTAL HEALTH PROJECT NOTED:

> 1982 MARKED THE BEGINNING OF A GRADUAL SHIFT AWAY FROM SHORT-TERM STRATEGIES, E.G. LIMITATIONS ON ELIGIBILITY AND SERVICES, REDUCTIONS IN PROVIDER PAYTMENT, ETC., TO CONCENTRATION ON MORE LONG-RANGE, STRUCTURAL REFORMS IN THE ORGANIZATION, FINANCING AND DELIVERY OF MEDICAID SERVICES.

THESE INNOVATIONS, WHICH I BELIEVE WERE STIMULATED BY THE MEDICAID REFORMS ENACTED IN 1981, ARE CHARACTERISTIC OF THE RAPID AND PROFOUND CHANGES OCCURING IN THE HEALTH CARE INDUSTRY.

In the area of the public health service programs, I believe that we have made significant improvements through the adoption of block grants in FY 1981. States have adopted planning mechanisms to allocate these resources and it is a mistake to return to categorical funding as some would suggest. I remain concerned that the press of a short session and the emotional issues which surround these programs will prevent passage of any reauthorization bill.

However, in the area of funding for categorical and block grant programs, I must say that I am disappointed in your department's request. I believe that more resources must be allocated to the health research and service programs. Last year we generally provided these programs with an increase sufficient to maintain the current level of activity. I will support this funding level again.

Madam Secretary, as I indicated we are pleased that you can spend this time with us.

Chairman **Domenici**. Senator Chiles?

OPENING STATEMENT OF SENATOR CHILES

Senator **Chiles**. Thank you, Mr. Chairman.

I am pleased to welcome our distinguished panelists here today. We have with us Secretary Heckler of the Department of Health and Human Services, and we are also going to have Mrs. Vita Ostrander, president-elect of the National Association of Retired Persons and Dr. Karen Davis of Johns Hopkins. The committee appreciates the time that you are spending with us today.

MEDICARE PROGRAM WILL HAVE PROBLEMS SHORTLY

Mrs. Heckler, we all know there are going to be some real problems with the medicare program within a very short time. I find it puzzling that this year's budget does little to protect medicare's solvency.

This administration is proud of its inflation fight—I think it has reason to be proud of it. The President talks about it all the time.

But each year, we see that medical care prices go up as much as three times faster than the rise in all other components of the CPI. Health care costs are now 10.5 percent of GNP, and we cannot ignore such a large segment of our economy, and it is a growing segment, too. Medicare and medicaid funds take an increasing percentage of the GNP, and when anything grows faster than the economy, we must make choices. We either have to restrain that growth, raise the taxes to pay for that growth, or we have to see an ever-increasing deficit. And that happens to be what we have been seeing over those areas that have been exceeding the growth.

We are beginning to see a consumer rebellion—maybe that is healthy. And is not just in the elderly, who are beginning to feel terror about the prospect of the medicare program going bankrupt.

Yet, I am concerned that the administration is being politically timid, and discouraging steps to safeguard medicare and hold down health costs generally. I want to explain that in a minute.

ADMINISTRATION MAY NOT GRANT WAIVERS

Congress passed the new prospective reimbursement legislation last year. The law contained incentives for the States to adopt their own hospital cost control systems. The law says that those States which implement a system to include all payers in a cost control program should receive a waiver from the Federal DRG system. And yet, this administration is giving every signal that it has no intention of granting those waivers.

I am afraid the momentum we have seen in some states to grapple with health care costs, and do it beyond the medicare program, will be brought to a standstill if the Department does not activate the waiver program.

I know it is going to be difficult for anyone to agree on the final outlines of a medicare "rescue package," whether it is before or after the election. Many things have to be seriously considered, but I question whether it is wise or fair to avoid discussing those options and discussing them now, before the election. And I hope we will be able during this hearing to forget this election year budget and put some of these options on the table for discussion.

We have some proposals from the Social Security Advisory Commission. They have not yet been presented in final form, but they are well-known, and I hope that you, Madam Secretary, and our other witnesses will be able to address some of those proposals.

Madam Secretary, I am sure you have some additional thoughts about the future, and I hope you will share those with us, as well.

Dr. Karen Davis has spent several years studying the medicare program and is certainly an expert in its problems as well as its promises, and I hope she has some thoughts about directions that we could take, and we are interested in those views.

I know Mrs. Vita Ostrander, representing the American Association of Retired Persons, has also given a lot of thought to all of the options on the table, and will be able to contribute some thoughts. I know that she has been very active in health issues in her own State of Georgia, as well as in the leadership she has given the Association. I want to compliment AARP for its work toward a responsible budget policy. We know that they are on record for speedy action dealing with deficits in a fair and efficient manner, and we look forward to working with them in the coming year.

Congress must take more convincing steps than are outlined in the submitted budget, and I hope each of you will help us.

Thank you, Mr. Chairman.

Chairman DOMENICI. Thank you very much, Senator Chiles.

Senator Hatch had a statement that he wanted to put in the record, and without objection, we will place it in the record at this point.

[The statement of Senator Hatch follows:]

STATEMENT OF SENATOR HATCH

It is a pleasure to welcome you, Secretary Heckler, to this Budget Committee hearing. As you know, I am one of your biggest fans.

As Secretary, Mrs. Heckler oversees nearly one-quarter of our Nation's health care bill. In fiscal 1985, that amount under her supervision will total approximately $325 billion.

It therefore is safe to say that no one understands better than she does the enormous burden of ensuring human services and health care, particularly for our Nation's elderly and poor. On Secretary Heckler falls not only the national responsibility for refining and enhancing the quality and accessibility of those services and care, but also the drastic need for controlling spiraling increases in health care costs. Let me just note that, as one important means of cost control, I am impressed with the Department's initial implementation of the Medicare Prospective Payment System.

I am pleased that the Department's fiscal 1985 budget and legislative program reflects those various goals. The budget is built on accomplishments already made to restrain growth in spending while maintaining essential services. It provides increased funding for major entitlement programs for the elderly, disabled, and poor. And it also maintains or increases support for important discretionary programs, including, for instance, continued progress in biomedical research, disease prevention and control, health block grants to improve delivery of essential services, and low-income home-energy assistance.

Mrs. Heckler, I applaud the excellent job you are doing in these areas. However, since you are doing such a good job here I would like to concentrate on a related area, an area in which much work needs to be done and about which I am vitally concerned. That is, what can be labeled the "feminization of poverty" is a problem I find particularly alarming.

This trend is a problem because the funds we will expend on the domestic programs administered by this Department will be greater than the total budgets of every foreign nation except the United States and the Soviet Union. I am concerned that we not lose sight of the long-run purposes of these expenditures. These domestic programs should support the efforts of individuals to become self-sufficient, not merely to support the individuals at some bare minimum level. The funds provided to needy citizens are not intended to provide incomes, but rather the means to achieve economic independence. That government often loses this focus is perhaps one reason we have not, over the last twenty years, won the war on poverty. It is also one reason why we now are seeing the "feminization of poverty".

In 1981, there were well over 10 million American families headed by women. In 40 percent of these families, the female breadwinner was unemployed. More than 50 percent of the children in families headed by women are living at or below the poverty level, compared to only 8 percent of children in husband-wife families. In Utah alone, 96 percent of all recipients of Federal income transfer payments were women, a figure which is probably indicative of the situation in most States. Aid to Families with Dependent Children, or AFDC—next to Social Security, Medicare, and Medicaid—is the most expensive Federal entitlement program we have. Approximately $7.1 billion is requested for this program for fiscal 1985. Nearly 91 percent of the recipients of this Federal payment are women.

Mr. Chairman, I know Mrs. Heckler is very familiar with these discouraging statistics, as are other members of this Committee. My point is simply that we need to change direction: We need more programs designed to help people help themselves and less which encourage and, in some cases, require dependence. There is no compassion in providing massive entitlements without education and training opportunities. And, in the case of women, we must do this while maintaining respect for and the integrity of the family.

The Committee may be aware that I have developed a package of eight bills to deal in large measure with the causes of the "feminization of poverty", which I believe to be these individuals' lack of marketable job skills and of the necessary support to obtain such skills and maintain employment. Some of my proposals, supported by other members of the Labor and Human Resources Committee, pertain to the programs administered by the Department of Health and Human Services. While I hope Secretary Heckler will soon be able to endorse these initiatives, I do hope that she shares my view that the way to fight poverty is to give people the tools they need to earn their own way and not merely to provide their subsistence. Doing so would be a significant enhancement of women's rights, a significant step toward correcting the "feminization of poverty".

Chairman **Domenici**. Madam Secretary, you have prepared remarks. They will be made a part of the record as if read, and you can either read them in their entirety or summarize them. We would like very much for you to try to keep your opening remarks to around 15 minutes, so we will have time for questions and get to the other two witnesses.

Thank you very much for accommodating us today.

STATEMENT OF HON. MARGARET M. HECKLER, SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Secretary **Heckler**. Thank you very much, Mr. Chairman, Senator Chiles, Senator Kasten.

It is a pleasure to come before you and to discuss the issues in which we are so collectively and personally involved.

I would like, Mr. Chairman, to submit my extensive remarks for the record,[1] and to present an abbreviated version of them.

Chairman **Domenici**. Without objection, that will be done.

Secretary **Heckler**. This year, the budget for the Department of Health and Human Services will be $318.1 billion. Our proposed budget is $22 billion larger than that for fiscal 1984. The entire Federal budget did not reach the $300 billion level until 1975.

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[1] See p. 105.

If our recommendations are adopted, HHS will spend more than $36 million an hour in benefits for more than 56 million Americans. Indirectly, it will touch virtually every American. The smothering of the Nation's inflationary fire has been a great boon to our Department. Every time the inflation index increases by 1 percent, outlays for HHS increase by $1.9 billion.

BRINGING DOWN INFLATION HAS SAVED BILLIONS

This administration's success in bringing down inflation has saved HHS and the American people billions of dollars each and every year inflation has declined. In 1985 alone, we have estimated that the budget has been reduced by a potential $37 billion. That is, we will spend $37 billion less than we would have spent if the 1981 inflation rate had continued unabated.

Lower inflation means that every HHS dollar, in benefits, in services, and in purchasing power, is worth more to those who receive our assistance.

To further strengthen the integrity of our programs and the people they serve, we have worked to restrain our spending growth and to reform programs. Our budget increase for 1985 will be 7.3 percent, a significant decrease from the 17.7 percent in 1981. We have reduced the growth rate, despite the fact that there are more beneficiaries each year.

The funding of our entitlement programs is the dominating force in the budget. We will spend almost 96 percent of our recommended outlays on these bedrock programs mandated by, and deeply embedded in, our national law. These programs, social security and medicare foremost among them, are the lifelines and the life preservers of our country's increasingly elderly population.

REFORMS HAVE PRODUCED IMPORTANT SAVINGS

Reforms in social security, medicare, and other programs have produced important savings during the last 3 years. The entitlement and tax law reforms we propose in this budget will reduce the deficit by $4 billion in 1985 and by more than $41 billion in the next 5 years. These kinds of reforms enable us to restrain spending even as more Americans are served, and in 1985 alone, 700,000 more elderly beneficiaries will come on the rolls.

In medicare, with the cooperation of the Congress, we have taken an important, forward step by implementing the most significant program change in our history, the prospective payment system. For the first time, the U.S. Government will become a prudent buyer of health care services by telling hospitals beforehand what we will pay for services. It is a system which will reward efficiency and discourage wasteful practices, while preserving the high quality of our health care.

But you and I know, Mr. Chairman, that prospective payment is not enough to deal with the ballooning costs of our health entitlements.

Medicare, function 570, and medicaid, function 550, continue to grow rapidly at a rate of almost 15 percent a year in medicare and 9 percent a year in medicaid. Without further reforms, they are expected to reach nearly $92 billion, or 29 percent of HHS outlays in

1985. The cost of both programs has escalated rapidly from $20 billion in 1975 to $46 billion in 1980, and have doubled since then. By 1989, under current law, these outlays are estimated to be $143 billion. These increases in Government outlays, more than any other single factor, account for continued increases in health care inflation. This serves neither the beneficiaries nor the taxpayers.

While estimated savings of nearly $7 billion have been achieved in medicare in the last 3 years, additional action is needed to restrain these rapidly rising costs and preserve the integrity of the hospital insurance trust fund.

Thus, the 1985 budget increases include a number of legislative proposals which affect medicare and medicaid. These changes for medicare include: holding payments to physicians to the 1984 level for one year; expanding opportunities for medicare beneficiaries to enroll in private health care plans; and gradually increasing the premium for the voluntary part B program, so that enrollees by 1990 will pay 35 percent of the program's cost. The original medicare legislation established the enrollees' share at 50 percent; currently, beneficiaries pay about 25 percent. In addition, the cost of the part B deductible, currently a fixed dollar amount, would be increased beginning in 1985, consistent with the medicare economic index. For medicaid, we would maintain limits on reimbursements to states and institute modest cost-sharing measures for recipients.

If the Congress enacts these proposals, savings through 1989 in our Department's budget would be $24 billion.

LIMIT TAX-FREE PRIVATE HEALTH INSURANCE

I would also like to mention the proposal to limit tax-free private health insurance, which is included in the Treasury Department's legislative program and is a key component in the administration's efforts to promote cost consciousness in the health care system.

We propose to limit this existing tax subsidy, allowing tax-free treatment only up to $175 per month for family coverage, or $70 per month for individual coverage. Total Federal revenues in 1985 from this proposal will be $3.9 billion, of which $207 million will accrue to the medicare trust fund and $873 million to the OASDI trust funds. Through 1989, this Treasury proposal would increase Federal revenues by about $41 billion.

I would like to address our nonhealth entitlements briefly. We are continuing our efforts to refocus the aid to families with dependent children program, function 600, to serve the neediest families. Our request of $7.1 billion includes a number of legislative proposals to strengthen work requirements and opportunities, and to target resources to those most in need. These proposals would save more than $600 million in AFDC and $230 million in medicaid costs in 1985. Through 1989, savings would total $6.2 billion in both programs.

The elderly, of course, are one of the most important constituencies of our Department, and with this budget, older Americans can really look ahead with confidence. They now have a social security system being restored to a sound financial foundation, and because of this we are able to provide the full scheduled cost-of-living increase in benefits.

In 1985, social security retirement and disability outlays, function 570, will reach $191.3 billion, an increase of $11.5 billion This increase is accounted for by: an increase in the number of beneficiaries; a higher average benefit level due to higher earnings of newer beneficiaries; and the annual cost-of-living increase, estimated at 4.3 percent, payable in January 1985.

This increase in outlays is more than offset by increases in income to the trust funds of $22.5 billion.

NEW CHILD SUPPORT ENFORCEMENT PROGRAM PROPOSED

Finally, with respect to entitlements, we have proposed a new, innovative, and aggressive child support enforcement program. When absent parents are forced to pay support legally due their children, then these children and their families become less dependent on local, State, and Federal governments for help. When parents support their children, my Department does not have to increase its spending.

Our proposals give the States new incentives based on performance—how much they collect and how well they collect it. The proposals would link Federal financing assistance to State performance in obtaining child support, for both AFDC and non-AFDC children, and would require States to adopt proven methods to improve collection of child support.

These proposals would save the Federal Government $152 million through 1989, but would result in increased child support collections and a far more effective program.

PUBLIC HEALTH SERVICES PROGRAM PROPOSALS

Mr. Chairman, you have also indicated in your letter to me your interest in discussing at this hearing Public Health Service programs. The President's budget includes $8.4 billion for the Public Health Service in 1985, reflecting a commitment to achieve better health for Americans by sustaining and enhancing a strong national health research capability, continuing implementation of health promotion and disease prevention, providing health care for Indians and other native Americans, and assisting the States in the delivery of health services through block grant funding.

The request for the NIH totals $4.6 billion, an increase of $89 million over the 1984 appropriation and $0.5 billion over the level which was available in 1983. Funds for NIH have increased from $2.1 billion in 1975 to $4.6 billion in 1985. Our 1985 request will support 5,000 new and competing research grants, for a total of more than 17,000 projects.

Another priority in PHS is immunization, for which we have increased funding in 1985. Indeed, immunization levels are at a record high of 96 percent or better, and the number of cases of childhood diseases prevented by immunization are at record lows.

For example, in 1983, there were only eight reported cases of polio in the United States, and an all-time record low number of reported diptheria cases. Indigenous measles has virtually been eradicated in our country, and this budget provides funds to assure that these trends will continue.

For the Indian Health Service, we are requesting $809 million, including estimated reimbursements, to serve more than 900,000 Indians and Alaska Natives. HHS funding for health services to Indians has increased threefold since 1975.

Finally, for PHS, we are requesting $0.5 billion for the health block grants in 1985, and I believe these block grants, which allow States to fund their highest health service priorities, have been very successful since their implementation in 1982.

IMPORTANT DISCRETIONARY FUNDING PROGRAMS

Important discretionary funding is also provided for the Office of Human Development Services: For Head Start, we are requesting $1.075 billion, and enrollment is expected to be maintained at about 430,000 children in 1985, the same level as in 1984. That is an increase of 55,000 over the 1980 level.

The budget provides $761 million for State programs for the aging, including nutrition programs of congregate and home-delivered meals. Between 1980 and 1983, the number of meals increased by 22 percent, from 167 million to 203 million. We expect further increases in the number of meals served in 1984 and 1985.

Also, we are requesting $64 million to assist States in assuring that persons with developmental disabilities have access to a range of services enabling them to live as independently as possible.

We also have a very important employment of the handicapped initiative underway in the Department.

Another important HHS discretionary program is the low-income home energy assistance program, which aids low-income citizens in meeting energy costs. We are requesting $1.875 billion for this program.

We have taken forceful management action to see to it that our dollars serve as many people as possible. I think this is part of caring. We have also worked very aggressively to attack fraud, waste, and abuse, and I would like to report that last year we ranked first in hotline calls received from citizens who wanted to blow the whistle on perceived wrongdoers. Now, we did not simply take calls. Our Inspector General increased felony convictions by 700 percent over 1981.

Senator BIDEN. What is that in numbers, Madam Secretary?

Secretary HECKLER. 808 cases.

I can also report specific management steps which reduce costs and improve efficiency. We collected $2.7 billion in debt owed to us in 1982 and 1983. We expect to collect another $3.1 billion in 1984 and 1985.

The Social Security Administration is improving its computer systems to better serve the public, and we are consolidating several overhead functions with savings in staff. We are reducing the paperwork burden on the private sector by 32 billion hours since 1981.

This is the first budget over which I have presided as Secretary of Health and Human Services, and I believe it is a renewal of my commitment to be a catalyst for caring and to be fiscally responsible to the American taxpayer.

This concludes my remarks, Mr. Chairman. I would be very happy to respond to your questions and concerns.

Chairman DOMENICI. Thank you very much, Madam Secretary.

[The prepared statement of Secretary Heckler follows:]

STATEMENT

BY

MARGARET M. HECKLER
SECRETARY OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON THE BUDGET

UNITED STATES SENATE

WEDNESDAY, FEBRUARY 22, 1984

Mr. Chairman and Members of the Committee:

In the last weeks --- since the official birth of the Administration's budget for fiscal year 1985, there has been intensive public and private analysis of the budget's impact on programs, policies -- and especially -- people.

I come before you and your colleagues this morning, Mr. Chairman, prepared to discuss our programs, our policies and the dollar consequences on millions of American lives that the proposed $318.1 billion budget of the Department of Health and Human Services will have.

Let me try to put a budget of this size into some kind of manageable perspective. Our proposed budget is $22 billion larger than that for fiscal year 1984. The entire Federal budget did not reach the $300 billion level until 1975.

If our recommendations are adopted, HHS will spend more than $36 million an hour in benefits for more than 56 million Americans. Indirectly, it will touch and benefit nearly everyone.

The smothering of the nation's inflationary fire has been a particular boon to my Department. Every time the inflation index increases by 1 percent, outlays for the Department of Health and Human Services rise by $1.9 billion. This Administration's success in bringing down inflation has saved

HHS -- and the American people -- billions of dollars for each and every year inflation has declined. In 1985 alone, we will spend $37 billion less than we would have spent if the 1981 inflation rate had continued unabated. Lower inflation means that every HHS dollar -- in benefits, in services, and in purchasing power -- is worth more to those who receive our assistance.

To further strengthen the integrity of our programs and the people they serve, we have worked to restrain our spending growth and to reform programs. Our budget increase for 1985 will be 7.3 percent, a significant decrease from the 17.7 percent increase in 1981. We have reduced that growth rate despite the fact that we serve more beneficiaries each year.

The fiscal year 1985 budget and legislative program for the Department build on the accomplishments already made to restrain growth in spending while maintaining essential services. In 1985, the Department will continue to finance improved health and human services and will provide direct benefits to nearly one in every four Americans. The budget provides increased funding for the Department's major entitlement programs for the elderly, disabled and poor, including those in need of medical care; and it maintains or increases support for important discretionary programs.

The following sections provide an overview of our budget request along the functional lines which this committee uses to review the budget and make allocation decisions.

EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES

(Function 500)

The HHS budget includes outlays of $5.6 billion under this function, primarily for Social Services activities of the Office of Human Development Services.

This budget continues the policies of this Administration to support social services and related programs which promote self-sufficiency among program recipients, while focusing Federal resources on the most effective and efficient programs.

Block Grants

The 1985 budget request for the Social Services Block Grant is at the full authorization level of $2.7 billion. No funding is requested for the Community Services Block Grant. Instead, the Department proposes that States use other sources of funding, including the Social Services Block Grant, to support those Community Services activities which are of the highest priority and most effective.

Head Start

A total of $1.075 billion is requested for the Head Start program which provides comprehensive support services and early childhood development for poor and handicapped children up to age five. This level will support services to nearly 430,000 children, the same number as in 1984, and an increase of 55,000 over 1980. Of the total enrollment, at least 10 percent will be handicapped. The total includes $80 million which is being transferred from the Department of Agriculture's Child Care Food Program.

Aging Programs

The 1985 budget includes $761 million for State programs for the aging, including the nutrition program of congregate and home-delivered meals. Between 1980 and 1983, the number of meals increased by 22 percent from 167 million to 203 million. We expect further increases in the number of meals served in 1984 and 1985.

In order to increase State flexibility in the use of funds for the various activities authorized under Title III, the Department is proposing legislation to consolidate funding for these programs into a single grant. Under this proposal, States will be permitted without restriction to allocate funds for services according to local priorities and need. Included in the $761 is $116 million which we are proposing to transfer from the Department of Agriculture's Elderly Feeding Program in order to simplify both Federal and State administration.

Developmental Disabilities

A total of $64 million, an increase of $2 million over 1984, is requested for activities to develop and expand services for persons with developmental disabilities. In 1985, these funds will provide continued support for the Administration's effort to increase private sector employment opportunities for developmentally disabled individuals.

Family Social Services

The 1985 budget requests a total of $642 million for programs to keep families together or to support other appropriate living arrangements when reunification of children and families is not possible. This amount includes $460 million for Foster Care, $169 million for Child Welfare Services and Training, and $13 million for Adoption Assistance.

In addition, legislation will be proposed to improve State incentives in the Foster Care program for early reunification or other permanent placement of children.

Work Incentives (WIN)

In 1985, no funds are requested for the Work Incentive (WIN) program because, as studies by the General Accounting

Office have demonstrated, this program has not proven to be cost-effective. Instead, legislation will be proposed requiring alternative work experience programs under the AFDC program.

Under this proposal, employable AFDC applicants and recipients will be required to participate in job search and community work experience or subsidized employment programs as a condition of AFDC eligibility. The Department will provide funding to States for the costs of administering these activities under the AFDC program's regular matching rate. At the same time, other programs such as the Social Services Block Grant and the Job Training Partnership Act will allow States to provide additional social and employment services to AFDC recipients.

HEALTH

(Function 550)

The Department's Medicaid and discretionary health programs are included in this function. The budget includes outlays of $30.8 billion for these programs in 1985.

Medicaid

The 1985 budget for Medicaid is $22.1 billion, an increase of $1.9 billion or 9 percent over the current estimate for 1984. Approximately 23 million needy individuals will be served by the Medicaid program in 1985, over 1 million more people than in 1980.

The rate of growth in Medicaid spending has declined considerably over the last several years. Between 1975 and 1980 Medicaid expenditures grew at an average annual rate of 15 percent. This compares to an estimated rate of increase of 10 percent annually between 1981 and 1985.

The provisions of the Omnibus Budget Reconciliation Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 played a major role in providing States with the incentive and flexibility to moderate program growth. These efforts must be continued in order to achieve greater efficiencies in the delivery of services.

This budget includes several proposals, initially sent to Congress last year, designed to stimulate more cost-conscious behavior on the part of beneficiaries and to maintain current incentives to restrain the rate of increase in program expenditures. Without these changes, Medicaid outlays would increase by $2.9 billion or almost 15 percent between 1984 and 1985.

These proposals include:

- Maintain Reductions in Federal Share of Medicaid

  We are proposing to continue, at 3 percent, the reduction in Federal Medicaid payments to States required by the 1981 Budget Reconciliation Act. The current provision requiring reduction in matching expires at the end of this fiscal year. Under our proposal, States would have, as under current law, certain opportunities to moderate this reduction. Percentage point offsets would continue to be available to States with qualified hospital cost review programs, unemployment rates exceeding 150 percent of the national average, or fraud and abuse recoveries greater than 1 percent of Federal expenditures. In addition, States with expenditures below specific target amounts could earn back all, or part, of the reduction.

  This proposal would save $567 million in 1985 and $2.8 billion through FY 1989.

- Medicaid Cost Sharing

  The Administration is proposing a requirement for nominal copayments for Medicaid inpatient and outpatient services. We are proposing a $1 copayment per visit for the categorically eligible Medicaid recipients and $1.50 per visit for medically needy recipients for physician, clinic, and hospital outpatient services. The categorically needy and the medically needy would also have a $1 and $2 copayment per day, respectively, for inpatient hospital services.

Medicaid's first-dollar coverage leaves the beneficiary with no incentive to consider costs when seeking services, and studies have indicated that free services tend to be over-utilized. Under this proposal, we believe patients and their physicians will reduce the use of unnecessary services at only a very small cost to the beneficiary.

Requiring cost sharing would save the Medicaid program $270 million in 1985 and $1.4 billion through 1989.

- Other Medicaid Changes
  The Medicaid budget also includes the impact of proposed changes in the AFDC and Medicare programs, and two initiatives to improve third-party collections by placing greater emphasis on seeking medical coverage in child support enforcement cases and requiring assignment of rights to third-party payments as a condition of eligibility. In total, these changes would save $330 million in 1985.

Discretionary Health Programs

For the discretionary health programs of the Public Health Service (PHS), the 1985 budget includes budget authority of $8.4 billion and outlays of $8.6 billion, reflecting this Administration's continuing commitment to improving the quality of health and health care for all Americans.

To achieve this, the budget for the PHS is largely devoted to: sustaining and enhancing our premier national health research capacity; encouraging healthy lifestyles and continuing support of traditional disease prevention and control efforts; and assisting States in delivering health services through block grants.

Health Research

Continuing our leadership in biomedical and behavioral research is vital to ensure long-term improvements in our Nation's health. Approximately $5 billion are requested in 1985 for the National Institutes of Health (NIH) and the Alcohol, Drug Abuse and Mental Health Administration (ADAMHA) which are the principal sources of Federal health research support. In NIH, this will fund 5,000 new and competing research project grants for a total of more than 17,000 projects, the second year in a row that we will exceed this record high number of projects. We have requested sufficient funds to permit a 5 percent average increase in the cost of these grants.

Research will continue in high priority areas of cancer etiology and prevention, immune system research, diagnostic brain imaging, and development of new vaccines for diseases such as gonorrhea, herpes, and meningitis through recombinant DNA techniques. Research efforts to combat the devastating effects on the aged of Alzheimer's Disease have been accelerated, with funding in 1985 of $39 million, more than double the level of 1981.

Health Promotion and Disease Prevention

The 1985 budget also continues to emphasize health promotion and disease prevention in order to help control health care costs, reduce human suffering, and improve the Nation's health status. For our two principal prevention organizations, the budget includes $280 million for the Centers for Disease Control (CDC) and $394 million for the Food and Drug Administration (FDA).

We know that our prevention efforts are paying off: life expectancy continues to increase; heart disease and hypertension have dramatically declined; and cases of childhood diseases, such as measles, polio, and diptheria, are at all-time lows as the result of strong Federal and State immunization efforts. This budget provides funds to allow these trends to continue. In addition, we are launching a new campaign to hasten the elimination of "German measles," or rubella, which is a primary cause of deafness in children.

Our number one public health priority at this time continues to be the vigorous pursuit of the cause of Acquired Immune Deficiency Syndrome (AIDS) and the development of effective prevention and treatment methods for this disease. Approximately $54 million are requested in 1985 for AIDS research and investigations, an increase of $6 million over 1984 and $25 million more than the amount available in 1983. Total AIDS funding over this three-year period is about $130 million.

Health Block Grants

The Administration remains committed to giving States and local governments greater control over the use of Federal resources to better meet the public health needs of their citizens, especially the economically disadvantaged. The 1985 budget includes $1.5 billion for four health block grants, an increase of $32 million over 1984. This includes $189 million for three programs (Black Lung Clinics, Family Planning, and Migrant Health) which we are proposing to consolidate into the Primary Care block grant. This consolidation will allow the States maximum flexibility to properly integrate these categorical programs into a comprehensive primary care health service system to best meet their specific priority needs, as well as streamline both Federal and State administrative costs.

SOCIAL SECURITY AND MEDICARE

(Function 570)

The Social Security Amendments of 1983 provided for a separate budget function for the Department's Social Security and Medicare programs. Outlays for these programs total $261.1 billion in 1985, about 82 percent of HHS outlays. Of this total, $191.3 billion is for our Old Age, Survivors and Disability Insurance (OASDI) programs. This represents an increase of $11.5 billion in outlays compared to 1984.

OASDI

OASDI outlays constitute about 60 percent of the HHS budget and will provide assistance to approximately 36.9 million Americans in 1985. The budget for these programs also reflects implementation of the Social Security Amendments of 1983 (P.L. 98-21) which were enacted to place the OASDI Trust Funds in a sound financial position.

Growth in OASDI outlays is due primarily to an estimated increase of 700,000 beneficiaries and to payment in January 1985 of the annual cost-of-living increase currently estimated at 4.3 percent.

Given the economic assumptions and the revenue and outlay projections in this budget, the so-called "stabilizer" provision of the 1983 Social Security Amendments would not be triggered during the budget period (1985-1989). Under this provision, the automatic annual benefit increase in January 1985 would be based on the lower of price or wage increases if the trust fund balance at the end of 1984 is projected to be less than 15 percent of outlays for that year. (This 15 percent rate applies through 1988 and rises to 20 percent thereafter.) While trust fund balances are expected to be below 15 percent in 1985, current estimates are that wage increases (projected at 5.4 percent) will exceed price increases (4.6 percent) during that time period.

The budget does not include any new OASDI legislation. It does reflect, however, the impact on trust fund income of the proposal to tax currently tax-free, employer-paid health benefits on amounts over $175 per month for a family plan and $70 per month for an individual. This proposal increases revenue and interest to the OASDI Trust Funds by $886 million for 1985, and a total of $10.5 billion through 1989.

Medicare

The 1985 budget for the Medicare program is $69.8 billion, an increase of $8.6 billion or 14 percent above our 1984 current estimate.

Spending for the Medicare program alone represents 22 percent of the entire HHS budget and 8 percent of the total

Federal budget. Approximately 31 million of the nation's elderly and disabled people will have their health care needs met through the Medicare program in 1985, almost 3 million more people than in 1980.

Health care costs are continuing to grow rapidly, currently at a rate about two times as fast as the general inflation rate. This rise in health care costs has been the major cause of excessive growth rates in Medicare. Expenditures have grown from $13 billion in 1975 to $32 billion in 1980, and have more than doubled since then. By 1989, under current law, these outlays are estimated to be $111 billion.

During the past three years, a number of changes have been made in the Medicare program. The most notable improvement is, of course, the new prospective payment system for hospitals initiated by the Administration and approved by the Congress in 1983. By 1985, all acute-care hospitals will be under this system, except those specifically exempted by law. Even with these changes, Medicare outlays will increase by almost 16 percent without further action by the Congress.

Consistent with the reforms already enacted, this budget includes a number of legislative initiatives originally sent to the Congress last year. The Administration believes that the rationale supporting these proposals remains valid, and thus, they are included in the current budget request. Moreover, some of these proposals are included in bills pending before the House and Senate. Enactment of these proposals is an important step in our continuing efforts to slow the rapid rise in Federal health costs which, if not checked, will ultimately cause the insolvency of the Medicare trust fund in future years.

In total, these proposals will reduce Medicare expenditures by $0.9 billion in 1985 and by $7.4 billion over the next five years. In addition, income to the Medicare trust funds will increase by $0.5 billion in 1985 and by $15.0 billion through 1989.

These legislative proposals include:

- Temporary Freeze on Physician Reimbursement

  We are proposing to limit temporarily Medicare reimbursement to physicians. Physician expenditures, the second largest component of Medicare spending, increased 20 percent in 1983 and are expected to rise 19 percent in 1984. We propose to allow no increase in the Medicare customary and prevailing charges for physician services for one year. The usual updating done on July 1, 1984 would be delayed until July 1, 1985. This proposal would save the Medicare program $600 million in 1985 and $4.5 billion through 1989.

- Medicare Part B Premium and Deductible

  We are proposing modest increases in the Part B premium and deductible.

  When Part B was first established, premiums paid by individual beneficiaries represented 50 percent of program costs. Over the years, premium increases have not kept pace with increased health care costs and, as a result, premiums now cover only 25 percent of costs. We propose to move closer to the original balance between the premium and estimated costs by increasing the premium one and two-thirds percentage points each year for the next six years. By 1990, the premiums will be at a rate equal to 35 percent of estimated program costs. For calendar year 1985, the premium cost to the beneficiary would be $17.30 per month, an increase of 40 cents more than the premium would be in 1985 under current law.

  This proposal would increase Medicare premium income by $296 million in 1985 and by $12.7 billion through 1989. We also propose to index the annual changes in the Part B deductible to the Medicare Economic Index. This provision would help maintain the real dollar value of the deductible, which has been increased only twice since Medicare was established; from $50 to $60 in 1973, and to $75 in 1982. Current law does not provide for future increases in the deductible. Under our current proposal, the deductible would increase by $3, to $78 in 1985.

Indexing the Part B deductible would save Medicare $40 million in 1985 and $905 million through 1989.

- Expanded Enrollment Opportunities

  This proposal would expand opportunities for Medicare beneficiaries to use their health benefits to enroll in a wider array of private health plans as an alternative to traditional Medicare coverage.

  In 1982, Congress, with the support of the Administration, amended the Medicare statute to permit payments on a risk basis to Health Maintenance Organizations (HMOs) and other competitive medical plans. Our current proposal would build on this provision. This initiative would permit Medicare to contribute an amount equal to 95 percent of what it would have cost to care for the beneficiary if he or she had elected traditional Medicare coverage. If a beneficiary selects a private health plan that costs less than Medicare's contribution, the beneficiary would qualify for a cash rebate. These plans would be required to provide a benefit package that is at least equivalent to that provided by Medicare. The program would be entirely voluntary, and beneficiaries could elect to re-enter the Medicare system if they choose to do so.

- First Full Month of Eligibility

We propose to begin Medicare eligibility on the first day of the month after an individual reaches age 65. Currently, Medicare eligibility begins on the first day of the month in which an individual reaches age 65.

This change should not result in a lapse of health insurance coverage because the large majority of individuals have private insurance which generally extends until the beginning of Medicare coverage.

This proposal is expected to save the Medicare program $265 million in 1985 and $1.7 billion through 1989.

- Other Medicare Proposals

Also included in the Department's 1985 legislative program are proposals to revise reimbursement to home health agencies for durable medical equipment, allow volume purchasing of laboratory services and other medical supplies, and several management improvement proposals. These proposals would save $34 million in 1985 and an estimated $451 million through 1989.

Tax Treatment of Employer-Provided Health Benefits

I would also like to mention the proposal to limit tax-free private health insurance which is included in the Treasury Department's legislative program and is a key component in the Administration's efforts to promote cost-consciousness in the health care system. At present, all employer contributions to employee health benefits are tax-free to the employee and are treated as business expenses of the employer. We propose to limit this existing tax subsidy, allowing tax-free treatment only up to $175 per month for family coverage, or $70 per month for individual coverage. Employer contributions above these amounts would be included in the employee's taxable income.

The tax cap would affect about 38 percent of those with employment-based health coverage. These individuals would remain free to purchase as much health care coverage as they desire but with "after tax" dollars.

Total Federal revenues in 1985 from this proposal will be $3.9 billion, of which $207 million will accrue to the Medicare Trust Fund, and an additional $873 million to the OASDI Trust Funds. Through 1989, this proposal would increase general and trust fund tax revenue by about $41 billion.

Status of the Medicare Hospital Insurance Trust Fund

As you know, the Hospital Insurance (HI) Trust Fund will be depleted in the future, given estimated revenue and income projections. However, this projected insolvency will not occur during the current five-year budget period (1985-1989) under current economic assumptions. The Department is now updating its projections of the trust fund status and current information will be available this spring.

To assist in addressing this problem, the Department requested the Advisory Council on Social Security in 1982 to undertake an indepth review of this program and to provide recommendations to preserve the integrity of the Medicare system. The Council's recommendations, soon to be released, will be helpful in future consideration of solutions to Medicare's financial problems. In the coming year, the Department intends to work closely with the Congress, consumers, and providers on an exchange of views regarding appropriate measures needed to insure the long-term viability of Medicare.

Peer Review Organizations

The 1985 budget also funds the new Peer Review Organizations (PROs) program at $171 million. Under the prospective hospital payment system, PROs will be a key element in the effort to promote effective, efficient, and economical delivery of hospital services provided to Medicare beneficiaries.

INCOME SECURITY

(Function 600)

The Department's income security programs for the aged, disabled and poor will have estimated outlays of $20.6 billion, an increase of approximately $200 million over 1984.

Supplemental Security Income

The 1985 outlay estimate for the SSI program is $9.3 billion, an increase of $795 million over 1984. Federal benefit payments under this program will provide assistance to an average of 3.7 million recipients each month.

The increase in benefit payments is due primarily to the fact that there is one more benefit payment in 1985 (12 compared to 11 in 1984). In addition, the budget reflects a cost-of-living increase of 4.3 percent and a projected increase in the blind and disabled population.

The request also includes legislative savings of $16 million from two proposals expanding the authority for the cross-program recovery of overpayments between SSI and OASDI.

Aid to Families with Dependent Children (AFDC)

A total of $7.1 billion in outlays is included in the 1985 budget for the AFDC program. These expenditures will provide assistance to an average of 3.6 million families each month.

The request includes several initiatives, originally introduced as part of the 1984 budget, which build upon the reforms enacted in the Omnibus Budget Reconciliation Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982. These proposals are intended to further ensure that assistance is provided only to those who are in need and not in a position to provide for themselves, and that strong work requirements and employment incentives exist for all able-bodied applicants and recipients. In 1985, this legislation is estimated to save $633 million in AFDC and an additional $230 million in the Medicaid program; through 1989, savings would amount to about $6 billion, including Medicaid savings of $2.1 billion.

The specific proposals are as follows:

- Mandate Community Work Experience Programs

  States will be required to ensure that all able-bodied adult recipients register to participate, and actually do participate, in work as a means for reducing welfare dependency. States must provide job search and Community Work Experience Programs (CWEP), and may, at their option, establish a subsidized employment program. Savings are estimated at $171 million in 1985 and $1.4 billion through 1989.

- Include Parents and Siblings in Filing Unit

  This proposal would ensure that only families whose total income is inadequate to meet their needs would receive AFDC payments. Under this proposal, States will be required to include in the AFDC assistance unit the parents and minor siblings (excluding SSI recipients) living with a child applying for or receiving AFDC. This proposal is expected to save $143 million in 1985 and $735 million through 1989.

- Adjust Shelter and Utility Costs

  The shelter and utilities portion of the need and payment standards in State programs will be adjusted for families living in a larger household to recognize the economies that result when living expenses are shared with other household members. Savings are estimated at $263 million in 1985 and $1.4 billion through 1989.

- Other Changes

  The AFDC budget also includes the impact of several other proposals that would require States to prohibit payments when parental absence is due to employment, end parents' benefits when the youngest child reaches age 16, sanction individuals who choose not to work, require parents to register for work if child care is available, and limit assistance to minor mothers not living with their parents. In addition, the AFDC budget reflects savings associated with a child support enforcement proposal to mandate changes in State laws. These proposals would save $56 million in 1985 and about $600 million through 1989.

Child Support Enforcement

Improvements in the Child Support Enforcement program continue to be an important priority for me and the Administration. We are pressing for early approval of pending legislation which will lead to more effective State programs, including higher collections from absent parents. Through 1984, we estimate that collections will have increased by nearly 50 percent since 1980, from $1.5 billion to $2.2 billion. The 1985 budget reflects outlays of $558 million for this program.

Low Income Home Energy Assistance

For 1985, the Administration is proposing legislation which will significantly change the source of financing for this program. Under this proposal, the Low Income Home Energy Assistance Program (LIHEAP) would receive an appropriation of $1,875 million to be derived from a newly established "Petroleum Overcharge Restitution Fund."

This fund would consist of revenues from existing oil escrow accounts in the Department of Energy and future oil overcharge litigation settlements. In addition, the legislation would authorize general revenue appropriations into the fund to ensure that sufficient resources are available to support LIHEAP at the $1,875 million level.

The Administration's legislation will not propose any change to the existing State allocation formula for this program.

Refugee and Entrant Assistance Programs

In 1985, the budget request for Refugee and Entrant programs totals $360 million in budget authority and $419 million in outlays.

The budget authority request represents a decrease of $155 million below the 1984 level, reflecting an anticipated reduction of 74,000 in the average monthly number of refugees who are eligible for cash and medical assistance compared to 1984, and a parallel reduction in the need for targeted assistance after three consecutive years of declining refugee admissions.

MANAGEMENT ACTIONS

We have also taken strong management action to assure that our dollars serve as many people as possible. This, too, is part of caring, and we have attacked fraud, waste, and abuse aggressively. Last year, we ranked first in hotline calls received from citizens who wanted to blow the whistle on perceived wrongdoers. But we didn't simply take the calls; our

Inspector General increased felony convictions by 700 percent (808 cases) over 1981, a record of apprehending criminals stealing taxpayer dollars that rivals the FBI.

I can also report specific management steps which have resulted in specific gains which reduce costs and improve efficiency. We collected $2.7 billion in debt owed to us in 1982 and 1983, and expect to collect another $3.1 billion in 1984 and 1985. The Social Security Administration is improving its computer systems to better serve the public; we are consolidating several overhead functions with savings in staff; and we are reducing the paperwork burden on the private sector -- by 32 million hours since 1981.

We are also examining very closely the recommendations of the President's Private Sector Commission on Cost Control (the "Grace" Commission). I am in general agreement with the overall management thrust of the Commission report and expect to reap considerable savings as a result.

This is the first budget that I have wholly presided over as Secretary of Health and Human Services. It is a renewal of my commitment to be a catalyst for caring and to be fiscally responsible to the American taxpayer.

That concludes my remarks, Mr. Chairman, and I would be happy to answer your questions at this time.

Chairman **Domenici**. I am only going to ask one question and then yield to Senator Chiles, and I may submit mine in writing so that we can expedite the hearing somewhat this morning.

But Madam Secretary, Senator Durenberger has been around the country as chairman of the Subcommittee of Finance that oversees medicare. He conducted hearings in California, New Mexico, and elsewhere. In my State, one of the issues that became very significant during the hearings was the issue of those hospitals that, by nature, are doing a significant amount of indigent care now, and I think the numbers are rather revealing. This issue primarily involves 100 or so urban public hospitals. We only have one in my whole State, but obviously, every State has a couple in their major cities that are doing an inordinate amount of clearly indigent care now. By indigent, I do not mean poor; I mean cases that are charged for and that cannot pay. Medicaid frequently covers a poor person; medicare may or may not. But there is that group that cannot pay anything.

I am very concerned that our national efforts with DRG's and cost containment efforts directed at hospitals could fail because of public opinion at some point in time, and my concern is that if it happens, it will be over a small item rather than a large item, something that is emotionally charged, but that could have been solved with relatively small amounts of money, on some consideration for this indigent expense.

PROSPECTIVE PAYMENT LAW BEING PHASED IN

Could you share your thoughts with me on this? What I am talking about is what happens to a hospital that is used to and traditionally furnishes 10 percent more indigent care than the average, and we are pushing for cost containment and competition. Obviously, competition is not going to compete for that? Competition down the street is not going to ask for that kind of patient. As a matter of fact, some private sector hospitals are growing up with the notion of taking patients very selectively.

Can you share your thoughts about that and what you intend to do about it?

Secretary **Heckler**. Well, as you know, Mr. Chairman, we have quite carefully phased in the prospective payment law, so that it will be implemented over a 4-year period. In the first year, 75 percent of the reimbursement will be based upon the historic reimbursement pattern at any specific hospital. This would take into account the strain on those hospitals that have the largest percentage of indigent cases. In that first year, there will be the opportunity for the hospital, on a transitional basis, to phase in the new system.

We also think that as we assess and monitor this system carefully over the 4-year period, we will be able to understand those blips, changes or excesses in the system that create serious public policy problems. So I think it is something for us to monitor. We have heard, of course, the same comments ourselves. We feel that our data and experience will better educate us in terms of dealing with that specific type of problem. But we do not expect that the strain will be excessive because of the gentle nature of the phase-in process.

STATES SHOULD USE ALL MEDICAID PROGRAMS

Chairman Domenici. Well, in a sense, I would acknowledge here that this line of questioning is not necessarily relevant to the Budget Committee's deliberations on how much is something growing, can it grow less, can we squeeze some out and the like. However, it does appear to me that you have to be concerned about indigent care because if in the middle of this transition, those people running the kind of hospitals I am describing go to the public—and they will certainly be well-received by the public and those that discuss public problems--there may be a decline in support for prospective payment and our reform effort will fail. It is very hard for people to understand DRG's. We have all these witnesses, but the papers cannot report it—they do not know what DRG's are—the television cannot give the people the idea. But I guarantee you, the first one of a public hospital that has to close a wing because reimbursements are not sufficient to cover the cost, everybody is going to understand that. So, I would urge that you put it very high on your list. I do not have an answer. I have studied it a bit, and it is very difficult. Certainly, every State ought to use all the medicaid programs that are around.

Secretary Heckler. Yes.

PROBLEM BEING TRACKED VERY CAREFULLY

Chairman Domenici. I represent a State that does not have a medically indigent program. They may have made a decision they did not want to. I think they will look at it again.

Maybe I will just ask that question for the record, could you furnish information for the committee as to how many States are availing themselves of the medically indigent option under medicaid.

Secretary Heckler. We would be very happy to, Mr. Chairman.

[The following was subsequently supplied for the record:]

Medically Needy Category of Medicaid

The term "indigent" is not currently used in Medicaid at the Federal level, as it is a term most often used at the State level, relating to State-funded assistance programs.

The closest Federal equivalent under Medicaid is the medically needy category, which States may or may not choose to cover. Twenty-nine States, the District of Columbia, and four Territories provide services to the medically needy. New Mexico does not.

The States and Territories serving the medically needy are:

Arkansas
California
Connecticut
District of Columbia
Guam
Hawaii
Illinois
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Montana
Nebraska
New Hampshire
New York
North Carolina
North Dakota
Northern Marianas
Oklahoma
Pennsylvania
Puerto Rico
Rhode Island
Tennessee
Utah
Vermont
Virgin Islands
Virginia
Washington
West Virginia
Wisconsin

Secretary **Heckler**. I would like to say, as well, that the Department is very, very aware of this problem. As you know, we have a pass-through for teaching costs, and in large measure, many of the teaching hospitals will also absorb some of the highest level of cases of indigent care. But we also are doing a study on the uncompensated care issue. It is one of the areas in which we are concerned as well, and we intend to report back to Congress the results of our own study.

I would also like to mention the fact that the legislative mandate which established prospective payment, also created a prospective payment advisory commission. Not only will our Department be looking at the performance of the diagnosis-related group system, but we will also have the outside commission, mandated by Congress, reporting to us, advising us, and we will certainly take their issues into account.

So, as serious as the problem is, we have foreseen it, although we have not at this point completed the study, and we have not identified the answers. But we will be tracking it very carefully, because it is a serious question, obviously, and something we are very concerned about.

MEDICAL SCHOOLS HAVE INORDINATE AMOUNT OF INDIGENT CARE

Chairman **Domenici**. In your answer, you raise a second one. It is also equally obvious that, for perfectly legitimate reasons and understandable reasons, hospitals that are related to medical schools seem to have an inordinate amount of indigent or uncompensated care, but also, the unit cost is inordinately high in order to train physicians. If we end up with medical education getting cut while we compete and produce reduced costs it surely will have an adverse effect on the whole prospect of restraint.

Secretary **Heckler**. That is not our goal——

Chairman **Domenici**. I understand.

Secretary **Heckler**. Also, we are allowing for a pass-through of teaching costs, and we consider that very, very essential to the maintenance of the high quality of medical care that we have enjoyed in the country.

Chairman **Domenici**. I understand.

One last question. I just happen to know about my State, because we just went through this, but I use it only as an example. I do not think very many people would know, and I want you to know and those who work for you to know, that there are States that have literally only one or two cities in their whole State that have more than one hospital. I only have two cities with more than one hospital in the city. All the rest of the cities have one. Now, that means that there is a very, very different kind of health delivery system existing in these areas. I think it is very important as you move toward the goals of creating competitive mechanisms for delivery of health care that you keep in mind that there are States where most areas depend on a single provider.

Secretary **Heckler**. Well, you know, Mr. Chairman, we have created an exception for the sole community hospitals, to deal with that specific situation.

Chairman **Domenici**. Yes.

Secretary **Heckler**. But there are many variations in the country; there is no doubt about that.

Chairman **Domenici**. Senator Chiles.

Senator **Chiles**. Thank you, Mr. Chairman.

Last year, the administration proposed medicare cuts of about $38 billion over 5 years. There was a lot of opposition to the way some of those cuts were going to be taken, because most of it would have come from beneficiaries. I think a lot of us felt that we would not have had much impact on the overall goal of keeping health care costs down with those cuts.

This year, you have pulled back about half of that, and you now have proposals for cuts of about $19 billion over 5 years.

PHYSICIAN PAY FREEZE WILL NOT CAUSE COST SHIFTING

The major proposal you repeat is for a 1-year freeze on physician fees. That was hotly debated last year. We had quite a bit of agreement here in Congress that that was an area that would have to come next. But the major problem is how to protect medicare beneficiaries from massive cost shifts as a result of that freeze. There is still a lot of concern about that as we face the same issue this year—are we going to require mandatory assignment. I wonder if it goes further than that. It seems that reducing medicare physicians' payments without dealing with the assignment issue and the transfer of those costs, has impact on other users of the health system.

Don't you agree that any effective attack on medical price escalation has to recognize some overall limits on charges, rather than just shift the costs around? Doesn't that mean we need a provision to protect the beneficiaries from increased cost pass-ons? And why isn't the administration working with the Congress, really, on this issue?

Secretary **Heckler**. As you know, Senator, we introduced a number of proposals last year that did not pass in the Congress. This year, we have chosen what we think are those that have a reasonable chance of passage, and I think we have tried to be realistic about that. In fact, I believe that the 1-year physician pay freeze is not going to cause cost-shifting. It is a pay freeze of limited duration. We are also very aware of the fact that the AMA and other large medical associations have supported this pay freeze. With the large number of new physicians, in many, many areas we have a surplus of physicians. I think that what we are going to see is continued competition among physicians, and therefore, we are less likely to see cost-shifting.

Also, as you know, I have ordered the publication of directories across the country which will identify those physicians that accept assignments, so that the public, and especially elderly beneficiaries will know which doctors and areas will be available.

Senator **Chiles**. Well, that differs a lot from the Congressional Budget Office telling us that they estimate at least 25 percent of that cost will be shifted. So that is a major variant.

Secretary **Heckler**. Well, it will not be the first time that actuaries vary. We have varied with the Congressional Budget Office on a number of issues, as you know, and our estimate is that this is not going to cause cost-shifting for the reasons that I have suggested. It is a 1-year freeze; there is some surplus of doctors, especially in urban areas, and we think that the competition that is now occurring in the medical marketplace is going to keep rates lower.

NO REQUESTS FOR MEDICARE WAIVERS MADE

Senator **Chiles**. We will have to see on that.

I want to ask you something about the medicare waivers for the State all-payer systems. I mentioned that in my opening statement. When is the Department going to issue regulations for these waivers?

Secretary **Heckler**. Senator, we have, as you know, the authority to issue the State waivers. However, the Congress in its wisdom, in TEFRA, stated and required a certain number of very, very stringent conditions in order to enable a State to be eligible for waiver.

Senator **Chiles**. Are you working on regulations? Are you going to issue some regulations? I do not think you are going to hear from the States until they know what you are setting out as requirements.

Secretary **Heckler**. Well, the requirements basically have already been set out by the law.

Senator **Chiles**. They are always set out in the law, but they are always based on the law—you have been on our side of this for a long time—we write those laws, and then we always know that the Department is going to issue some regulations based on those laws.

Are you saying that you do not need any regulations at all, now?

Secretary **Heckler**. The requirement is that we must respond to any request for the granting of a waiver. We have not had those requests at the moment.

Senator **Chiles**. Well, that is interesting——

Secretary **Heckler**. A regulation is in preparation at this time. Frankly, Senator, at this point, the whole prospective payment system is so new that States are becoming familiar with it. I think it is going to take them a while to know how they can comply with both the conditions set by the Congress and any——

Senator **Chiles**. Now you are talking about the Federal prospective payment. But we have said if a State wants to go in there and set up their own all-payer system, and we know that some States have already done that—I believe the State of Massachusetts has a system like that, do they not——

Secretary **Heckler**. No. We had a medicare waiver which predated the prospective payment law.

REGULATION IN CLEARANCE PROCESS

Senator **Chiles**. But it seems to me that the end is the same, and that if you have got some States that have already set up their systems, they could take advantage of not having to have their DRG's cleared. It was Congress clear intent, to put the carrot out there, to show these States that if they went in that direction—and I want my State to be encouraged to go in that direction, and other States they would have support. When will you have your regulations?

Secretary **Heckler**. Well, Senator, a number of States had already begun to take a direction similar to prospective payment, and those States have received waivers. Massachusetts happens to be one that does not have a system that is similar to the DRG's at all.

Senator CHILES. I see.

Secretary HECKLER. However, their request for a waiver was granted before prospective payment, and they were meeting other financial standards.

In terms of the implementation of the new waivers, we are drafting a regulation within the Department. I think the States are well aware of the fact that they will have the opportunity to have a waiver; nonetheless, it will not be easy for them to comply with the standards that the Congress has set.

Senator CHILES. Well, I would still wonder if HCFA can tell us when that regulation would be, and when we could look to see that regulation.

Secretary HECKLER. I am informed by Dr. Davis that the regulation to deal with waivers is in the departmental clearance process, which means that it is going through the Executive Secretariat and is being reviewed by appropriate Assistant Secretaries. It should be reaching me within 30 to 45 days.

Senator CHILES. I think it would be helpful as soon as we can get that, because then if the law is too complex, if Congress has gone too far, we can see it. But I do not think we will get a chance for the States to respond until we get a chance to see that regulation.

Secretary HECKLER. I would not like to suggest that I think the law is too difficult or too stringent. I really do not think that there is any basis for that judgment.

Senator CHILES. I hope it is not.

Secretary HECKLER. No; I do not think it is. But I think it is designed to be stringent, and that is what cost containment is about.

STAFF REDUCTION WILL NOT AFFECT CLAIMS PROCESS

Senator CHILES. Right. I agree with that.

On another subject, my understanding is that you are consolidating several overhead functions to "save staff," and I use that in quotes, in social security. Can you tell me how many staff cuts that means in social security? Is that going to mean the closing down of any social security offices? What will that do to the processing time for social security claims? Again, I think you know, Madam Secretary, from your experience in the Congress, one thing that we have tried to do over the years is try to see that social security has enough personnel so people can have their claims handled on a reasonable time basis. I do not want people to wait forever, but continually, we see cuts coming in areas that get right down to the level where they are interfacing with the recipients themselves.

Secretary HECKLER. Well, Senator, I could not agree with you more, and I have no intention of allowing the reduction in social security local offices. One of the proposals that was made by the Grace Commission was to reduce the number of social security local offices. I happen to feel this is totally unworkable and unwise, so I am simply not supporting it.

The information I have received from knowledgeable sources, both inside and outside the Department, is that the reduction of personnel will be absorbed by attrition; there is no reduction in force that is planned. The encouraging information that I consider terribly important—and I think you would, too—is that the automated system is progressing very well. We feel that we are going to have far more effective processing of all social security claims and requests under the new system than before and that fewer employees can deal with the growing caseload because of the move toward the electronic processing system.

DECREASE EMPLOYEES THROUGH ATTRITION

Senator CHILES. Can you give me a number of how many personnel we are talking about that we expect to be able to accommodate through automatic processing?

Secretary HECKLER. This budget includes a decrease of 2,180 full-time equivalent employees, and this is expected to be accomplished through attrition.

Workyear reductions will be achieved through procedural changes, form simplification, case management control, and systems enhancements to automate a significant amount of claims processing, earnings posting, and benefit computations. These workloads are currently being done manually. I was particularly concerned with the compatibility of all of the many electronic systems that have been introduced to social security. I have been informed by outside experts that the system is indeed improving very, very substantially, including the centralization of remittance and collection activities, which is related to debt collection initiatives, automatic case control for the hearings officers, program service centers, office of disability operations, office of central records operations. An example is the posting of annual wages. This took 20 months only 1 year ago; it now takes 8 months under the new, automated system. We are finally coming into the electronic age in social security, and this is going to provide for much more effective processing. By and large, a larger caseload will be handled by fewer people, and we do not expect to accomplish any reduction through RIF's.

[The following was subsequently supplied for the record:]

[illegible]
ORRIN G. HATCH, UTAH
JOHN TOWER, TEX.
MARK ANDREWS, N. DAK.
STEVEN D. SYMMS, IDAHO
CHARLES GRASSLEY, IOWA
ROBERT W. KASTEN, WIS.
DAN QUAYLE, IND.
SLADE GORTON, WASH.

[illegible]
J. BENNETT JOHNSTON, LA.
JIM SASSER, TENN.
GARY HART, COLO.
HOWARD M. METZENBAUM, OHIO
DONALD W. RIEGLE, JR., MICH.
DANIEL PATRICK MOYNIHAN, N.Y.
J. JAMES EXON, NEBR.

STEPHEN BELL, STAFF DIRECTOR
RICHARD N. BRANDON, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

February 22, 1984

Secretary Margaret Heckler
Department of Health & Human Services
Hubert H. Humphrey Building
200 Independence Avenue, S.W. 20201
Washington, D.C.

Dear Secretary Heckler:

At the Senate Budget Committee hearing this morning you testified that no Social Security offices would be closed as a result of the personnel reductions planned by Health & Human Services in Social Security Administration staff. If I correctly understand, you indicated that the number of staff positions to be deleted was 2,180. Moreover, you indicated that because of automated processing advances, the reduction in personnel would not adversely affect the time it takes to process claims.

As a member of both the Senate Aging Committee and the Senate Budget Committee, delays in the processing of claims are of particular concern to me, especially as a Senator from Florida. I would appreciate at an early date a detailed explanation of your personnel-reduction schedule together with your best estimate of which offices will sustain cuts in personnel.

I would also appreciate a more complete explanation of how those personnel reductions will be offset by improvements in automated data processing methods as well as a list of which offices will be directly affected by the new processing techniques.

I have had any number of complaints about long lines and lengthy delays in processing claims. That works a definite hardship on elderly people who bear the direct, physical burden of standing in line, or waiting 5 or 6 hours in an office to be seen. While I am pleased to hear the personnel cuts will not make things worse, I would be far more interested in learning how things can be improved, and processing time reduced.

Sincerely,

Lawton Chiles

Lawton Chiles
Ranking Minority Member

LC/ebl/s

THE COMMISSIONER OF SOCIAL SECURITY
BALTIMORE, MARYLAND 21235

March 27, 1984

Honorable Lawton Chiles
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator Chiles:

I was asked to reply to your letter of February 22 to Secretary Heckler concerning reductions in our administrative budget and advances in automated processing.

The President's FY 1985 Budget proposes a reduction of 2,180 full-time equivalents for the Limitation on Administrative Expenses (LAE) account of the Social Security Administration. The number of full-time equivalents proposed for FY 1984 is 80,253 and the number for FY 1985 is 78,073. The LAE account covers administrative activities for the Social Security and supplemental security income (SSI) programs. A full-time equivalent is a work year for employees who count against an agency's ceiling. A full-time equivalent allocation is the maximum number of hours (2,080) that ceiling employees can work during a fiscal year, exclusive of overtime. Full-time equivalents are achieved through a combination of various types of appointments, such as full-time permanent, full-time temporary, and part-time permanent.

The major reasons for the decrease are a decrease in certain workloads and the implementation of procedural changes and improvements in automation.

Workload decreases in fiscal 1985 are expected to result from:

- Lower school attendance workloads due to a reduction in the number of students receiving benefits, as a result of the Omnibus Budget Reconciliation Act of 1981.
- Processing in fiscal 1984 of a nonrecurring backlog of high priority post-entitlement workloads.
- Lower resource requirements to implement the Social Security Amendments of 1983. The cost of the new SSI provisions in these amendments (principally the requirement to notify aged Social Security beneficiaries of the availability of SSI) peaks in fiscal 1984.

Some of the budgeted procedural changes and systems improvements are:

- Automation of the proration of the first month's SSI payment (from the date of application or date of eligibility, whichever is later) as required by the Tax Equity and Fiscal Responsibility Act of 1982.
- Automation of the offset of retroactive Social Security old-age and survivors insurance benefits for SSI payments received during the same period as required by Public Law 96-265. The so-called SSI "windfall" offset equals the amount of SSI and State supplementary payments that would not have been paid if the Social Security benefits had been paid when regularly due rather than retroactively.
- Expansion of the claims automated processing system to include certain cases formerly excluded from automated processing.
- Replacement of card readers with scanning devices for case control and folder location in our processing centers and the Office of Central Records Operations.
- Automation of certain cases now excluded from automatic processes to refigure benefit amounts for recent earnings.
- Use of word processing equipment and data transmission in our Office of Hearings and Appeals to establish a national case control system and management information network.
- Automated conversion of an eligible survivor to survivors benefits when a primary beneficiary dies.
- A change in the method of profiling SSI redetermination cases.

I was disturbed when I read your comments about people having to wait 5 or 6 hours to be interviewed in our offices. We have been unable to determine where this may be occurring. It certainly is not a typical situation. If you have information as to where delays may be occurring, I would appreciate your sharing it with me.

I can assure you that it is a high priority objective of each Social Security office to provide prompt and courteous service to every person who visits that office. To ensure that such service is provided as consistently as possible, several basic procedures are followed. For example, busy reception areas are supervised to assure that prompt service is given to visitors. When reception areas begin to crowd, all available staff are assigned to handle interviews. The interviewing process is expedited by identifying people who have "simple, easy" questions and providing them with immediate service at the "front desk" or in our "fast-track" units.

The above are examples of some steps taken to provide prompt service to the public. I can assure you that prompt, efficient service is the primary goal of the Social Security Administration and we will continue to take whatever action is necessary to meet that goal.

Sincerely,

Martha A. McSteen

Martha A. McSteen
Acting Commissioner

Chairman DOMENICI. I would just say, if you close those offices, all it will do will be to fill our offices.

Secretary HECKLER. Senator, as a former Member of Congress, I not only am aware of that, but I am too concerned with the needs of the elderly and the need to service them to allow that to happen. So I simply do not feel there is a justification for that proposal.

Chairman DOMENICI. I think that is right. Most certainly, we ought to let you all do it and not have Congresspeople do it, but I guess that is an interesting phenomenon that is occurring. We get a lot of votes that way. You give people what they are entitled to, and they think you are great. They are supposed to get it anyway, you know.

Senator Biden.

Senator BIDEN. Thank you, Mr. Chairman.

Madam Secretary, I have only been here through four administrations, but you are the best witness that has come before this committee or any one I have sat through.

Secretary HECKLER. Thank you so much, Senator.

Senator BIDEN. And I assume part of that is not only because of your native intelligence and capabilities but because you have been a former Member of the Congress, and you understand what it is like.

I have two general questions and two specific, if I may. As you know, we are desperately grappling here with the notion of how do we deal with budget cuts, or how do we deal with deficits, how do we cut budgets to deal with deficits—not a phenomenon unfamiliar to you. And we have Democrats and Republicans who find that one of the easiest things to do is appeal to the public's understandable—I would argue—prejudice that the place to do it is in those wasteful social programs.

And since you are, to use the expression they use with regard to the efforts I am making on international drug-trafficking, you are sort of the czar of the social programs; you are the person that people look to the most.

ENTITLEMENT PROGRAMS WILL BE LOOKED AT

The first question is sort of to set the record straight so it makes it harder for us to demagog on this side of the table—and I am not referring to any one member of this committee or the Congress, but Congress as a whole—and that is, are there any areas within your perview that you feel you could realistically make further significant budget cuts this year or next year, as you see it?

Secretary **Heckler**. As I mentioned in my statement, Senator, this budget is so astronomical; at $318 billion, $36 million an hour is spent by HHS, and 96 percent of that is attributable to entitlement programs. About 4 percent is spent for all of the discretionary programs. I do not personally see areas in which those discretionary programs can be changed. As you look at the entitlement. programs, obviously, any change requires a statutory authority, and you are asking Congress to bite the bullet and initiate the changes.

One of the things that we have learned, fortunately, from the budget cuts that have already occurred, for example, in 1981 and over last 3 years, is that the private sector is picking up more of the costs in virtually every area.

If I could just mention congregate meals, a very special program. I think it is very important for the elderly, many of whom do not have a single hot meal except for the congregate meal. Now, we are serving more congregate meals than ever before, and last year, we collected over $100 million from elderly people themselves, simply by posting a notice, saying, "The cost of this meal is '*x*' number of dollars, and if you would like to contribute to it, we would appreciate that."

There were a number of older citizens who could afford to pay for a portion of the meal, enjoyed the socialization as well as the food, and made those contributions.

I see the Federal dollar going further in virtually every way. In the meals area, we expect a 5.9 million increase in the number of meals served in 1985, and that is really quite substantial. In terms of voluntary contributions, the increase is $8.7 million over 1984, and the total amount of money is actually over $136 million. That is a lot of money for people to contribute.

The fact of the matter is that that is just one of many areas. In virtually every program, there are more private sector linkages that are extending the Federal dollar. I personally do not see areas in which you can have very substantial cuts in the discretionary programs. The entitlement areas, I think we have to very forthrightly look at the options and with all the affected constituencies. I would also agree with you that this is the season for hyperbole, demagoguery you might say, and that we are going to get into this more and more politically which is rather unfortunate, because we are dealing with very vulnerable Americans. In my Department, we primarily deal with the most fragile people—the elderly, the poor, the disabled, the ill. I think that it is the height of insensitivity to hype the issue to the point where real concern and panic is created in the minds of our beneficiaries, without real answers.

NO CHANGES PROPOSED IN SUPPLEMENTAL SECURITY INCOME

Senator BIDEN. That is exactly what happens, and if I could lead from that to a specific question, and it is in line with what the chairman indicated earlier. The chairman was pointing out to you with regard to medicare that sometimes, it is the least consequential, in a financial sense, aspect of the program that has the greatest consequence in terms of whether or not the whole program change can take place.

Let me just read to you what you have already read, I am sure—it will only take a moment—the so-called "Senior Citizens News" newspaper that is put out, published by the National Council of Senior Citizens. Recently, they said:

> The Administration may be considering a number of cuts in supplemental security income, including (1) the reduction of benefits if the recipient lives in the home of another, even if he does not share in expense; (2) permit recipients to have burial plots only for themselves or children, not for parents or siblings; (3) dollar-for-dollar reductions in the benefit if friends or relatives help the recipient out with a little cash, and (4) require beneficiaries to sell small vegetable plots, many of them maintained in order to supplement their diet.

Now, I am glad to see you are shaking your head in a bit of disbelief, as I had hoped you would. But these are the kinds of things that happen when we in Government—not you—but when we in public office go out and rattle this cage about wasteful social programs.

So I guess what I would like to ask you is how seriously are you considering these four proposals that I just rattled off. I kind of find it somewhat ironic that these ideas are being put forward—if they are.

Secretary HECKLER. Well, Senator, I have never heard of most of those ideas. The issues are not under consideration. I think that it is terribly irresponsible to create the impression that the elderly will be bled, that their burial plots will be taken, et cetera.

I think that we should try to deal with the deliberate creation of an anxiety level that is not favorable to the elderly and unsubstantiated by concrete action.

We are proposing no changes in SSI this year.

Senator BIDEN. Good.

Secretary HECKLER. And I have not heard of this.

Senator BIDEN. I did not think you were, but I think it is very important to state. I mean, these are not things I made up. There are tens or hundreds of thousands of senior citizens who get this little newspaper, and the cuts that I read from are "White House Considering SSI Cuts." And I think hearing from you, quite frankly, in addition to relieving the anxiety, which is an important thing for us to do for the most fragile, as you put it, and vulnerable among our citizens, but it also saves a lot of mail—which is not as important, but makes some impact.

One last question, Mr. Chairman, if I may.

ADMINISTRATION'S POSITION ON MEDICAID PROGRAM

The medicaid program does not reach many needy people, especially pregnant women and children, because the family is intact—that is, the father is present in the home—and as a result, many low-income children, some of us believe, go without needed prenatal and postnatal care. There has been legislation introduced and endorsed by members of both political parties to extend medicaid benefits to those people. The estimated cost is $120 million a year which, I would argue, pales in comparison to what would have to be spent of those people do not receive the proper care between conception to the second year.

My question to you is, as I understand it, the administration has indicated they do not support that approach, and that concerns me a little bit—and I am not playing a game with you—but there is a very strong, and I think, in a sense, healthy rhetoric and action on the part of the administration, that is very profamily. And I, and I know you, when you were in Congress, argued that profamily goes beyond the issue of what your position is on abortion. And I would argue that this is a very pro-family position, even though it costs $120 million.

I wonder (a) what the Department's position on it is, if you have one, which I think you do, and (b) why you take the position you do?

Secretary **Heckler**. Well, Senator, currently, 24 States cover children in two-parent families, and almost all the other States cover one or more classifications of these children. There is a problem in terms of the amendments that have been proposed by the Congress.

The proposal that has been considered in the House is 100 percent Federal funding for medicaid coverage of low-income children in two-parent families, that are not eligible for AFDC. The administration is opposed to this, because the coverage of medicaid is determined by the States, so that at State option, there is always the opportunity for States to include these families within its coverage. The second reason is that the proposal is estimated to cost $3 billion over a 5-year period; $175 million in the first year. The financial factor is a major consideration.

The opportunity and flexibility for change lie with the States and constitute the unique and fundamental conditions of the medicaid program. The administration feels that a State has that option and should exercise it if it chooses to.

Senator **Biden**. Well, I would like to ask for the option of being able to work on you a little bit on this. The Senate version does not go as far as the House version and covers just the unborn, and it seems to me that the cost is considerably less, No. 1, and No. 2, I am one of those who feels very strongly about abortion, and I agree with the major thrust of this administration's attitude on that issue, which is to discourage in every way including their attempt to have a constitutional amendment, which I happen to disagree with, but in every way, the promotion of, or the funding of, abortions, and I have so voted that way. And I find it a little inconsistent that even though in tough budget times, it costs more money for us not to be doing things that would encourage in every way mothers to carry to term children in such circumstances when there is a father and a mother in the home.

Now, my time is up, but I would like to ask your permission to lobby a little bit on that and pursue that issue with you.

Secretary **Heckler**. Certainly.

Senator **BIDEN**. Thank you.

I have no further questions. Thank you, Mr. Chairman.

Chairman **DOMENICI**. Senator Grassley, you may proceed.

INITIAL RESPONSE ENCOURAGING

Senator **GRASSLEY**. Welcome, Madam Secretary. You have a very difficult job, particularly as it relates to the problems we deal with here, trying to get the budget under control.

For those of us that are trying to make dramatic adjustments in the budget, particularly in those areas of defense and entitlements that have not been touched, and of course, in the area of defense, dramatically increased during the last 3 years, and we see wrestling with that issue as the key to making a dramatic change in the level of deficit, we find health matters very difficult to deal with. Politically, all of those areas are very difficult to deal with, but in addition to the political realities, the practical aspects of getting the health budget under control are very difficult.

And, in regard to one of our efforts, and whether or not your comments on that would help us see a brighter light at the end of the tunnel, I wanted to ask about the DRG's.

They are now just six months in operation—and of course, not totally in operation yet, in most States—does it look like we will see the results we expected to see 1 year ago, and if not, what is the problem; and if there is a problem, what do you think we should do about it?

Secretary **HECKLER**. Well, Senator, we are encouraged by the initial response at the Department, although we also feel the system has been in place for such a short time that we cannot draw very firm conclusions from the data available. Nonetheless, we have already seen some reductions in hospital costs, based on this initial data, and that is encouraging.

We have worked very hard at the Department on the DRG regulations, 861 pages of them. In developing the regulations, we tried to deal with the payment rates, with understanding of the hospitals' needs, but also, with the need to maintain budget neutrality in terms of meeting the savings projected by Congress under the TEFRA hospital cost limits. And we feel now, at first blush, response is favorable and encouraging, and we are very hopeful that this will set us on a new path of reimbursement. It seems to have created a sense of cost-consciousness in the hospitals, in the whole medical community, and I think, among the public, and this is also encouraging.

Senator **GRASSLEY**. Whatever savings we projected 1 year ago, does it look like that will be on the positive side of that savings?

Secretary **HECKLER**. Well, we are required, under the DRG system, to insure that the reimbursement does not exceed what it would have been under TEFRA. We very carefully fine-tuned the DRG prospective payment regulations to meet that standard, and we see now that early returns show us more than meeting it. We are very, very hopeful. In fact, I have some figures here. The savings under TEFRA were projected to be $1.4 billion in 1984, $2.4 billion in 1985; $3.6 billion in 1986. And we definitely feel we will meet those figures.

Senator **Grassley**. Now, in a more general way, to ask roughly the same question, as we would consider the Consumer Price Index health cost increases on an annualized basis, and we were projecting, I think, a 2- or 3-percent reduction in them, directly related to DRG's—and if I am wrong, you can correct me—but does it look like those sorts of savings are going to be accomplished using the Consumer Price Index as a yardstick?

Secretary **Heckler**. We have already had reductions in the medical costs, not as extensively as we have had in the general inflation in the economy, but we have seen substantial reductions.

We also feel that cost effectiveness has become a measurement in the whole medical field. While the costs are still very high, the cost-effectiveness that the prospective payment system created has had a more universal effect than merely on medicare-related costs. So we feel that, in general, there has been a very substantial impact from the DRG system.

PHYSICIAN COST-SHIFTING UNLIKELY

Senator **Grassley**. In regard to the freezing of physicians' fees, do you see a cost-shifting, and if so, do you project we ought to be doing anything about it?

Secretary **Heckler**. We do not, Senator, primarily because we feel that the limited duration of a freeze, which is one year, is unlikely to produce a cost shift. Second, the freeze occurs at a time when we have some surpluses of doctors, especially in urban areas. There is also an understanding by the medical associations, the AMA and others, that there has to be some bearing of sacrifice across-the-board. We feel strongly that the physicians are in a competitive situation, which has not been the case for many, many years. Thus we see medical competition as holding prices down and probably being a major factor in avoiding a shift in terms of the physician freeze.

Senator **Grassley**. Thank you.

Thank you, Mr. Chairman.

Chairman **Domenici**. Senator Exon.

Senator **Exon**. Thank you very much, Mr. Chairman.

Welcome, Madam Secretary. We are very glad to have you come before us this morning. There are so many things that you are involved in that are of major concern to us. I would just like to see if I could delve into a couple of them this morning and get your ideas, to see what is happening or not happening on two issues that basically relate to nursing homes.

Madam Secretary, as you know, I have some serious concerns about the wage index which is being used to compute hospital payments under the new prospective medicare system. It seems quite clear to me that the Congress intended that such adjustments be made to reflect the differences—and I emphasize, the differences—in hospital wage levels, compared with the national average.

WAGE INDEX UNFAIR IN MEASURING WAGE DIFFERENCES

The current wage index is not fair and accurate in measuring wage differences, because it does not reflect the relative use of part-time employees and other employees that are very customary in Nebraska and other rural areas.

Now, I understand there is a task force that works on this, basically, as a result of suggestions from the Congress, myself and others, Senator Dole. The final regulations were printed in the Federal Register on about January 3, or that week sometime, and you recognized the point that we have been trying to make, and I think has been recognized by your Department. When are these going to be implemented, No. 1, and No. 2, why is it that in the Register Report of the week of January 3 last, the new wage index would not be retroactive back until October 1, 1983, when supposedly, these new rules went into effect at great harm to the rural communities that are trying desperately to reduce costs of this nature?

Could you comment on that and tell me what we can get done, because it is a critical matter.

Secretary HECKLER. Yes, it really is, Senator. We have had a great deal of congressional correspondence, and I also know of your interest on this subject.

When the first regulation was drafted, the wage information we used was that which was available from the Bureau of Labor Statistics. At the time, we did not realize that these statistics did not have the technical fine-tuning that our program required. So that when the problem became identified, we then set up a joint working group with hospital representatives and representatives from the Department.

At the present time, we are collecting data from virtually every hospital in the country, which is why we do not now have the final figures. For the purposes of almost all other Government programs, the Bureau of Labor Statistics has been a reliable source of information. In this particular case, however, there has been no other source available. When we saw the deficiencies, we worked with the industry immediately, and we found that we had to do this survey ourselves. This accounts for the delay.

As you know, in the first year of the integration of the prospective payment system into medicare reimbursement, 75 percent of the reimbursements will be based on the historic reimbursement to the hospitals; 25 percent will be related to a mix of a national figure and this wage data. The error that was made will relate to the smaller portion of the DRG's, and we think it will be corrected by the time we move to the next phase.

But, unfortunately, this survey of all of the hospitals in the country is causing the delay.

Senator EXON. Could you give me an approximate time? I do not suppose it will be in the next week. Will it be in the next month? Will it be in the next 6 months, in the next year?

Secretary HECKLER. Well, we are very aggressively pursuing this. I am told no later than September. We expect all the data to be in by next September.

Senator EXON. Does it really take that long to get a handle on this?

Secretary HECKLER. Well, that would be the next update of the prospective payment system. The fact is that, to survey hospitals across the country, with the variations within the country, will require this amount of time. This will be the first opportunity we will have to change the regulations.

MAKE NEW REGULATIONS RETROACTIVE

Senator **Exon**. I anticipate from your answers that you recognize that not everything was taken into consideration just for the reason that the information was not available to you. What about the matter of, then, trying to make up for this by making whatever the new regulations are retroactive to October 1 last year, so we could make up any unfairness that has been caused by the fact that not full information was used in drawing the formula?

Secretary **Heckler**. Senator, this program is a major deviation from the historic reimbursement pattern. While a great deal of care went into designing the program in the Department, the statistical difficulty based on the lack of the differentiation between full-time and part-time workers of the Bureau of Labor Statistics information has created the problem.

We do not know at this point what the magnitude of the problem has been, and I think that when information becomes available to the Department, we can reexamine the question.

Senator **Exon**. Well, I ask you to take a look at making it retroactive. And I see the red light is on—can I ask one more question, Mr. Chairman?

Chairman **Domenici**. Sure.

LONG-TERM CARE FACILITIES NOT TAKEN INTO CONSIDERATION

Senator **Exon**. It has to do with Hill-Burton funds. I do not know how familiar you are with this, because I recognize you have been in your position a relatively short period of time. But I think maybe you should take a look at the regulations governing Hill-Burton programs that were significantly rewritten in 1979. The major goal of these changes was to get greater compliance from hospitals for their obligations of certain amounts of free care. I endorse that. I think that was a step in the right direction

However, your Department has repeatedly admitted that these new rules were designed and imposed without taking into consideration the unique characteristics of long-term care facilities. And we have had correspondence back and forth about this. I think probably, my brief description has been recognized in the Department. And I am wondering why it is taking so long to correct what appears to be another mistake in drawing formulas.

Secretary **Heckler**. Senator, in terms of your interest and concerns, I have been informed that the existing regulations specifically prohibit facilities from applying to the Hill-Burton obligation any loss caused by servicing medicare or medicaid beneficiaries, and that medicaid rates are set by the States and are considered adequate. The Hill-Burton law requires consideration of and service to the needy, and there is no excuse for nursing homes not to live up to those responsibilities.

Senator **Exon**. But I am sure you know that medicare is a small part of the total reimbursement, so I do not think we should get off concentrating on that.

We have a whole series of letters that I could supply for the record—in fact, I will do it at this time—five letters from the Department, acknowledging the unfairness of this situation. Are you telling me here today that you feel that the Department is without authority to make correction in this area, even if you thought there was a problem?

Secretary **Heckler**. Senator, I would prefer to respond to you for the record.

Senator **Exon**. All right. Please do that. This is another one of these situations that I and others have been very concerned about, and we keep jarring, jarring, and jarring. What I would like to know, Madam Secretary, is if you will take a look at these and agree that there is something wrong, and then work in a more forthcoming manner than your predecessor has, and you thus far, with regard to correcting it, either through actions that you can take as Secretary or supporting of some legislation that I think we could get past in the Congress.

We have got to work it out. It is one of these things we have been putting off in the corner and not addressing. So if you would respond for the record, I would be very happy with that.

Secretary **Heckler**. I would be happy to respond.

[The following was subsequently supplied for the record:]

HILL-BURTON REGULATIONS

The Department agrees that current Hill-Burton regulations were designed with hospitals in mind. Because of this, we have evaluated the potential benefits of a number of possible adjustments to nursing home requirements. We are willing to work with your staff in addressing this issue. We feel strongly, however, that any changes should not result in a reduction in the amount of uncompensated care provided by nursing homes. We are also concerned that any solution to this problem not imply that State Medicaid rates for nursing homes are inadequate.

Chairman **Domenici**. We will make those letters a part of the record, Senator, as you requested.

[The following was received for the record:]

JAN 30 12 50 PM '80

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
PUBLIC HEALTH SERVICE
HEALTH RESOURCES ADMINISTRATION
HYATTSVILLE, MARYLAND 20782

BUREAU OF HEALTH FACILITIES FINANCING,
COMPLIANCE, AND CONVERSION

JAN 25 1980

Mr. David C. Crowley, ACSW
Executive Vice President
American Association of Homes for the Aging
1050 17th Street, N.W., Suite 770
Washington, D.C. 20036

Dear Mr. Crowley:

This is in response to your letter of January 18 to Dr. Fiori. You commented on problems experienced by long term care facilities in complying with the new uncompensated care regulations issued May 18, 1979.

We are aware that this issue is not adequately addressed in the new regulations. We are currently exploring various ways to address and solve this problem. If a change is made in the regulations, we will inform you. In the meantime, we urge you to comply with the regulations to the best of your ability.

Thank you for sharing your concerns.

Sincerely yours,

Katharine C. Buckner
Acting Director
Division of Facilities Compliance

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
PUBLIC HEALTH SERVICE
HEALTH RESOURCES ADMINISTRATION
HYATTSVILLE, MARYLAND 20782

BUREAU OF HEALTH FACILITIES FINANCING,
COMPLIANCE, AND CONVERSION

MAR 17 1980

The Honorable J. James Exon
United States Senate
Washington, D.C. 20510

Dear Senator Exon:

Thank you for your letter of February 4 regarding the problems long term care facilities in general, and Madonna Professional Care Center in particular, are having complying with the Title XVI regulations.

We are aware that this issue is not adequately addressed in the regulations. Therefore, we are currently exploring various ways to address and solve this problem. One method under consideration at this time is a possible amendment to the regulations.

We will be glad to receive any written comments and/or suggestions as to what particular problems long term care facilities are having in complying with the regulations. It would be helpful to us if those comments are categorized by regulation section. In this way we can evaluate those areas of the regulations causing the most problems.

In the meantime, we urge long term care facilities to comply with the regulations and document the amount of uncompensated services provided until such time as the Department can resolve the problem. There are no statutory or regulatory provisions which allow facilities to be exempt from the regulations.

We appreciate your interest in the Title XVI regulations and their effect on long-term care facilities. Please let me know if I can be of further assistance.

Sincerely yours,

William R Berry

William R. Berry
Acting Director

DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES ADMINISTRATION
HYATTSVILLE, MARYLAND 20782

OFFICE OF THE ADMINISTRATOR

MAY 8 1980

The Honorable J. James Exon
United States Senate
Washington, D.C. 20510

Dear Senator Exon:

I am responding to your letter of March 27 regarding Madonna Professional Care Center of Lincoln, Nebraska.

On March 17 several members of my staff met with representatives from the American Association of Homes for the Aged and two long-term care facilities. Among the representatives was Mr. William Sonderegger, Associate Executive Director of Madonna Professional Care Center. The purpose of the meeting was to discuss some of the problems long-term care facilities (LTC) are having complying with Title XVI assurances regulations.

There were several aspects of the regulations which the representatives spoke of as causing serious problems for long term care facilities. They are:

(a) A number of states' Medicaid plans offer coverage to both Category A and B patients, and include within their coverage many services available to the residents. Hence, there is an absence of qualifying persons and qualifying services under the regulations which makes compliance virtually impossible.

(b) The average stay at LTC facilities is measured in years as opposed to days and weeks for hospitals. This precludes the rapid turnover of residents thus preventing LTC facilities from achieving compliance in the same manner as hospitals, i.e., quantity vs. quality.

(c) Due to the shortage of LTC beds throughout the country, most LTC facilities have established lengthy waiting lists. The community service provisions of the regulations have been interpreted by many LTC administrators that they must accept Medicaid/Medicare residents before private pay residents. Therefore, this allows in many instances for public pay residents to jump ahead of private pay residents who may have been on the list for quite some time. Furthermore, a public paying resident cannot be transferred from the facility once admitted.

Page 2 - The Honorable J. James Exon

(d) Since the regulations removed the provision whereby facilities could apply the difference between Medicaid reimbursement rate and reasonable cost toward the uncompensated care account, there does not exist a mechanism by which LTC facilities can comply without disruption of their operations and delivery of services.

As stated in Mr. William Berry's letter of March 17, we are currently considering an amendment to the regulations to establish requirements appropriate for long-term care facilities. We believe such an amendment will overcome the problems outlined by Madonna and other facilities.

As you know this process may take a considerable amount of time. During the interim, we will work very closely with these facilities.

We will keep your office informed as to resolution of this problem. Please let me know if I can be of further assistance.

Sincerely yours,

Henry A. Foley

Henry A. Foley, Ph.D
Administrator

DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES ADMINISTRATION
HYATTSVILLE, MARYLAND 20782

1981 JUN 25 AM 10 09
OFFICE OF THE ADMINISTRATOR

JUN 22 1981

The Honorable J. James Exon
United States Senate
Washington, D.C. 20510

Dear Senator Exon:

Thank you for your letter of June 2 concerning the problems nursing homes are experiencing with the current Hill-Burton uncompensated care and community service regulations. In your letter you enclosed materials from Madonna Professional Care Center in Lincoln, Nebraska, and Mr. Alan K. Parver of the American Association of Homes for the Aging as well as draft specifications for the existing law which would revise the requirements for obligated facilities.

As you may know, issues raised in the letters and the draft specifications were the subject of a meeting last year in which Mr. Sonderegger and Mr. Parver participated. Individuals representing other nursing home associations and consumer groups were also in attendance.

At the request of the Office of the Assistant Secretary for Health, we have undertaken a review of the regulations, including those areas which cause problems for long term care facilities. We intend to present these issues and alternatives to the current regulations to the Assistant Secretary in the next few weeks.

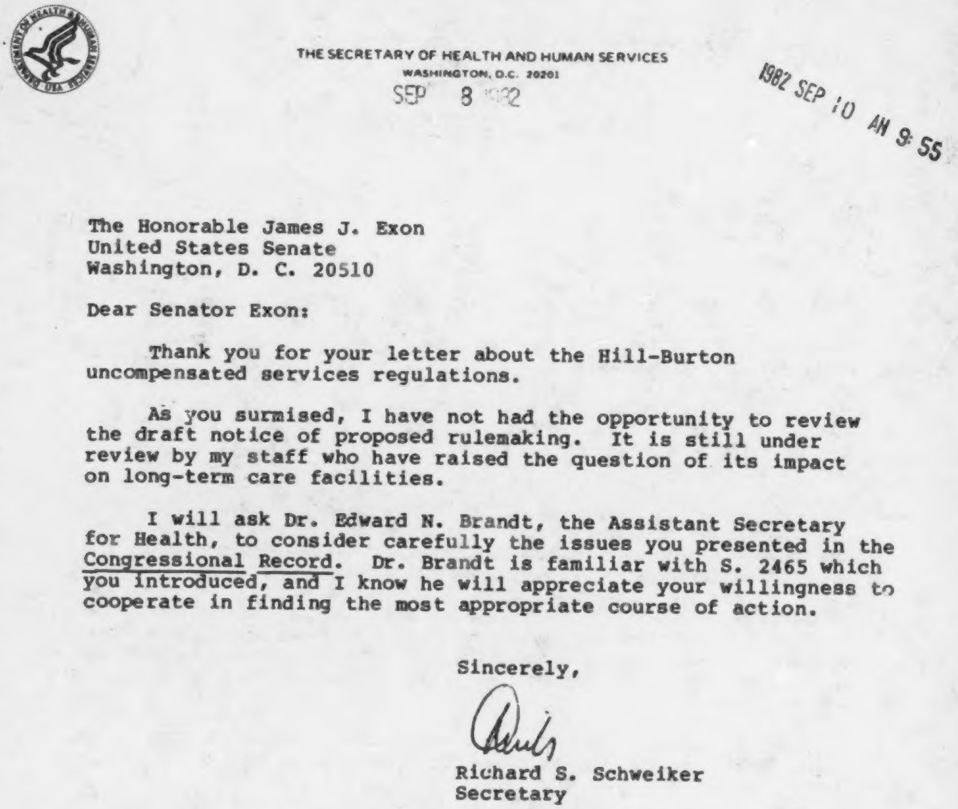
I believe we will be in a better position to inform you of the approach the Public Health Service intends to take on the uncompensated care obligations for nursing homes at that time.

Responsibility for the community service obligation was transferred from the Public Health Service to the Office for Civil Rights in December 1980 by former Secretary Harris. Issues concerning the community service regulations should be directed to that Office.

Sincerely yours,

Robert Graham, M.D.
Acting Administrator

436-7200



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

SEP 8 1982

1982 SEP 10 AM 9:55

The Honorable James J. Exon
United States Senate
Washington, D. C. 20510

Dear Senator Exon:

Thank you for your letter about the Hill-Burton uncompensated services regulations.

As you surmised, I have not had the opportunity to review the draft notice of proposed rulemaking. It is still under review by my staff who have raised the question of its impact on long-term care facilities.

I will ask Dr. Edward N. Brandt, the Assistant Secretary for Health, to consider carefully the issues you presented in the Congressional Record. Dr. Brandt is familiar with S. 2465 which you introduced, and I know he will appreciate your willingness to cooperate in finding the most appropriate course of action.

Sincerely,

Richard S. Schweiker
Secretary

Chairman DOMENICI. Madam Secretary, I am going to leave shortly, and Mark is going to preside and ask questions—is that all right, Senator Andrews?

Senator ANDREWS. That is fine with me.

ADVERTISING APPLAUDED

Chairman DOMENICI. Let me ask you this, Madam Secretary. You see these kinds of advertisements—here is one, "Washington Health Care Guide," and here is a whole page, urging people to go to this particular hospital, and it says everything they are going to do for you if you are sick and go there—is this kind of thing causing any price adjustment, or is this just competition to get people in?

Secretary HECKLER. We are experiencing a very unusual development which is, by and large, fortuitous and favorable. It is a sense of competition in the medical marketplace. And I think it is to be applauded. I have not seen that particular ad, but I think we are seeing this all over. It is a response to the consciousness that the average consumer has of the availability of different health care packages, and for the first time, we may see reductions in costs as a result of it.

Chairman DOMENICI. All right. My last concern is this. I am aware, and you are aware, that 70 to 80 percent of the costs in the hospital are the result of the doctor. We think the only place they prescribe is for you to go to the drugstore, but in a very real sense, they prescribe the hospital care and what you spend money for.

Are you satisfied that, in the effort to implement the DRG's, that the medical profession of the United States is involved in trying to make it work, and if not, what are you going to do about it, because it is in a very real sense imperative, and it is your job as the leader in this area to get them involved. They tell me in my State they are; are they?

Secretary **HECKLER**. Well, Senator, I can say that I agree with you whole-heartedly. I addressed the American Medical Association Convention to that effect and asked for their proactive leadership. As serious as our cost inflation is in health care, we also know we have the best health system in the world. The only way we can have an effective, cost-conscious system that preserves health quality is by keeping the doctors very involved, and I have asked them to be; I think they are.

Chairman **DOMENICI**. Thank you, Madam Secretary.

[Whereupon, Senator Andrews assumed the chair.]

Senator **ANDREWS**. Without objection, we will include a statement of Senator Sasser in the record at the appropriate point.

[The prepared statement of Senator Sasser follows:]

STATEMENT OF SENATOR SASSER

Madam Secretary, let me welcome you to this committee this morning. As you know, I have been extensively involved with the problems in the social security disability program for some time now. This is a most serious problem and one which goes to the very heart of the Government's obligation to protect the rights of disabled beneficiaries by preserving the highest regard for fair treatment and due process in all of its administrative contacts with disabled people.

Unfortunately, the administration's decision to accelerate the implementation of periodic reviews in March 1981 has caused a perversion of the original intent of the 1980 legislation mandating such and consequently the wanton and indiscriminate termination of thousands of rightfully entitled disabled beneficiaries has occurred. While congress enacted temporary corrective legislation in December 1982, and here I must stress the word temporary, the structural causes of the problem still remain and it was a great disappointment to me that permanant structural reform was not enacted last year.

As you are well aware, there are several pieces of legislation pending which would have the effect of making substantial permanant reforms in the system. S. 476, introduced by Senators Cohen and Levin is one such measure, and, S. 2002, offered by Senators Moynihan, Pryor, and myself is basically a mirror of the legislation offered by Chairman Pickle (H.R. 3755). Passage of either one of these measures would be a great improvement over the current situation and it is my sincere hope that you in your capacity as Secretary will work with and not against these essential improvements.

The current disability situation is a national disgrace and we simply cannot allow for erroneous terminations and callous indifference on the part of the governmental institutions charged with the responsibility for carrying out the mandates of Congress with respect to those who have been unfortunately afflicted with a disabling condition.

In summary, Madam Secretary, let me reiterate my strong convictions in this regard. As we analyze the FY 1985 budget, let us be sure that we not disregard both the spirit and the letter of the disability legislation which has evolved over the past quarter century. Let us not be blinded by the cruel light of these large budget deficits, rather let us use compassion and reason in a fiscally prudent and responsible way in determining the budget priorities for the coming year. I urge that you work with the Congress in fashioning remedies which will put an end to the discriminatory practices involved in the CDI process.

Senator **ANDREWS**. Madam Secretary, it is good to have you here.

Let me follow on for a moment, if I might, on some of the points my good friend from Nebraska made, because in the years you and I served together in the House—and they were great years, and it was great to have you as a friend—I always admired the fact that you were practical, factual, and a no-nonsense person. That is why you were a great Member of the House, and that is the potential you have, of course, in the Secretary's office that you now hold.

Madam Secretary, down somewhere in the bowels of HHS, there is a group that has been there for years, plotting and planning and coming up with damn fool ideas.

They came up 4 or 5 years ago with the idea that no hospital—and brother Exon can understand this, coming from Nebraska—no hospital should have an OB department if it did not have 600 live births a year or something like that. And we took a look at that. It is a different world out in the Plains States from the Northeast. We took a look at that, and that meant that you could have a child in North Dakota only in the cities of Fargo, Grand Forks, Minot, or Bismark. And that meant that when labor pains began, you might well have a drive of 150 miles. It was not practical. It did not make sense. It was not based on the facts of medical care as they existed.

Fortunately, we deep-sixed that idea. Now, that same group—or at least, it sure looks like it has the marks of that same group working—came up with this idea that we are going to set our medicare payments based on the population of the area.

HOSPITAL LOSSES WILL BE IN THE MILLIONS

In North Dakota now, we have three metropolitan hospitals. One, Minot, was really one of our larger cities, Madam Secretary, and is listed as a rural hospital, even though it has more medicare patients by 25 percent than does Grand Forks, which is listed as an urban. And you are telling the two hospitals in Minot, which have remodeled and which have set up, with the help of our medical schools and the best medical thought we can get, to serve as regional hospitals with the satellite, smaller hospitals, feeding in. Your Department is telling the hospitals in Minot that they can only charge 80 percent of what the hospital down in Bismarck charges for the same procedure.

Did you review this, or have you personally looked at the devastation that this is going to cause to these nonprofit hospitals? They are going to lose $2.5 million, $3 million a year. They will have to shut their doors, Madam Secretary, and then what are we going to do to explain to the people who are potential patients out in that part of the world, including people at one of the biggest SAC air bases in the Nation—are we going to explain to them that the doors were shut because the present Department of HHS made it impossible for that hospital to continue to operate?

Secretary **Heckler**. Well, Senator, I am very aware of the problem that you mention, and I certainly do not hope to see any of those hospitals close their doors. I think that would be a tragedy.

But let me say that the classification of "urban" and "rural" as part of the differentiation of fees under the prospective payment system was not created by the Department. It was created by the Congress.

As a matter of fact, when prospective payment was initiated by the administration, there was no urban/rural classification, and it was, I think, at the request of the American Hospital Association that the urban/rural designation was established. Under the law which first-year payments are based on, 75 percent of the costs will be the hospitals' traditional costs and 25 percent will be urban or rural regional rates on a prospective basis.

The fact is that the urban/rural classification system that has been used is one that was in place, created by OMB. It is the successor to the old SMSA's.

Senator **Andrews**. Sure, the SMSA. But the point is that it was not coming from the hospitals. It was foisted on them by OMB and/or the definers of SMSA's.

CONGRESS REQUIRED URBAN/RURAL SPLIT

Secretary **Heckler**. Well, actually, the urban/rural aspect of the prospective payment system, according to the information I have received—and I was not involved in the negotiations on that bill—was added by the Congress at the request of the Hospital Association. The rules for urban and rural designations are set by OMB and are now based on the new Metropolitan Statistical Area concept, the successor to the SMSA. So that, under all governmentwide programs, when you have the urban/rural classification, the formulation is determined according to this set formula that——

Senator **Andrews**. And you are telling me that the National Hospital Association said to you that the hospital in Minot should get 80 percent of the charges that the hospital in Bismark gets.

Secretary **Heckler**. Senator, I am not saying that, obviously. I am saying that the——

Senator **Andrews**. No, but I am trying to find out where to correct this, Madam Secretary, because we have a situation where, if you do not do something about it soon, there will be hundreds of square miles out in those Plains States that will have no access to a hospital. It is the damndest, most diabolical thing that I have ever seen. And it galls me to see a Secretary of HHS sitting here, saying, "This was given to me; therefore, it must be OK."

It is not OK. It is not going to work. And I think you have got the leeway to do something about it.

Aren't you concerned?

Secretary **Heckler**. I am concerned. I am——

Senator **Andrews**. We have another hospital in Williston, N. Dak. I was there with the Board on Thursday. Somewhere or another—and maybe this is some Alice-in-Wonderland deal we are doing with mirrors, and it is all blamed on somebody else—but the regulations sent to them from the Federal Government tell them that they cannot include in their patient count patients who come from Montana. Montana is only 17 miles from Williston. Out in that part of the country, you have got to keep your own Tomcat because it is that far between places. And the trouble is, a third of the patients who come from Montana have no alternate.

These people are spending several millions of dollars to build a medical center. It is in the center of an oil boom area, where you have higher wage scales than you have in many city areas. Yet, you are telling them they can only get 80 percent, plus they cannot count their patients from Montana. Do they put a sign on the door saying, "Go back home, anybody who comes in this direction from Montana"? Is this commonsense?

Secretary **HECKLER**. Senator, I am very concerned with the problem, and we have received a lot of correspondence from the Congress on the subject? We are going to look for a way to deal with it, because obviously, it is——

Senator **ANDREWS**. But you have the discretion in your Department to deal with it.

Secretary **HECKLER**. I would like to go back to the point, though, that the Congress required an urban/rural split.

CONGRESS DID NOT SET CHARGES FOR HOSPTIALS

Senator **ANDREWS**. Fine. But the Congress did not require you to tell hospitals that they could only charge 80 percent as much for procedures as other, similar hospitals do that have similar costs.

Secretary **HECKLER**. Well, the fact is that—— .

Senator **ANDREWS**. We studied that law, and there is no provision that tells you that you should force a nonprofit hospital that is modern, out in a rural area, that they should sustain losses of $2 to $3 million a year and, in effect, shut down.

What do we do, decimate the countryside with this administration?

Secretary **HECKLER**. The implementation of this act, has tracked the congressional mandate. What we have done in that first year is to set payment rate schedules based on 75 percent of the hospital's traditional costs and 25 percent of a new factor, which is the regional factor.

Now, in speaking to Senator Exon, I mentioned the need to reexamine the wage structure, and we are currently resurveying all hospitals——

Senator **ANDREWS**. But you have the discretion to reexamine the age structure. You have the discretion to go in and look at part-time employees——

Secretary **HECKLER**. Yes; we do——

Senator **ANDREWS**. Many of the nurses in these hospitals are married to farmers——

Secretary **HECKLER**. That is right.

Senator **ANDREWS** [continuing]. And in order to keep their families going and all of the rest, they come in and work 3-day weeks. They are part-time employees. But it is a fantastic asset, and it is the way you get RN's in that part of the world.

HOSPITALS WILL BE SURVEYED FOR ACCURATE WAGE RATES

Secretary **HECKLER**. Right. And we intend to reassess this and to redress the situation, because the wage information that we have received from the Bureau of Labor Statistics did not differentiate between full-time and part-time workers, and as a result of that, the wage rates were skewed.

The fact is, we are now surveying all of the hospitals and will get their accurate wage rates. And this will be factored into the update of the DRG system. In terms of the urban/rural situation, we are also aware of the seriousness of the problem. We are dealing with options as to how we can address that. I do not know exactly what we will propose. It may be, Senator, that we are going to propose to the Congress that the urban/rural split which was mandated by Congress be removed from the law itself. But aside from that, we are also looking at the issue ourselves.

We are studying it, and we are concerned, because——

Senator **Andrews**. Dr. Carolyn Davis was coming up to my office in about a week to visit directly with some of our people, and the point is, she does have the leeway to adjust these patent, unfair pricing tactics, does she not?

Secretary **Heckler**. I think that I would have to get a legal opinion on the urban/rural issue, but personally, I feel that if it is unfair to the rural hospitals, it was inappropriately required, and I think we should look at whether we want to take it out of the law. Within the purview of our discretion, I will certainly look at every opportunity to redress the situation.

Senator **Andrews**. The law said to categorize rural; it did not set an arbitrary 20 to 25 percent discretionary, discriminatory pricing schedule against those hospitals that were categorized as rural, did it?

Secretary **Heckler**. The designations were based on the total formulation, Senator——

Senator **Andrews**. On, I am not disputing the designations. But it did not delineate the fact that any hospital that fell outside of an SMSA should automatically get a 20- to 25-percent cut in any charges.

Secretary **Heckler**. I am told by Dr. Davis that the designations and the appropriate reimbursement levels were based upon factual data that had been compiled at the Department, and therefore, the final judgments were really the result of information that was available.

I think the issue has to be resolved, and it has to be reviewed, obviously, Senator, and I will do that.

CORRECTIONS WILL BE MADE

Senator **Andrews**. Madam Secretary, you said factual data. If we can prove in Nebraska and North Dakota that your data is not factual, that in effect the wage rates in the Minots and the Willistons and the New Rockfords are as high or higher than in those few SMSA's, then obviously, you are going to correct it, aren't you?

Secretary **Heckler**. Yes; we are.

Senator **Andrews**. So all we have to do is show that these wage rates are, in fact, as we say they are, comparable with the metropolitan area, and you will make the corrections and make it within a very short period of time.

Secretary **Heckler**. Senator, we are already surveying all the hospitals in terms of wage rates, which is a slightly different question. We are surveying all of the hospitals and will have very accurate data, because our intention in promulgating this regulation was to be fair to the hospitals——

Senator **Andrews**. That is right. Now you are sounding like the Peggy Heckler I know, and you say if there has been an error made, and if in fact these hospitals have the wage rates that are comparable to the city hospital wage rates, you will correct the inequity. That is all I need to know.

I have one followup question—and we are hoping we can do it soon, because these hospitals are in dire straits out there, you know, as to whether they are going to be able to keep their doors open or not, and it has to be retroactive, as my friend from Nebraska said; otherwise, there is going to be harm down the line. And this is a totally different thing—it has to do with the NIH.

RESEARCH GRANTS HAVE BEEN INCREASED

The current services level, Madam Secretary, for health research in the National Institutes of Health increases from $4.3 billion in budget authority in fiscal 1984 to $4.5 billion in fiscal 1984, an increase of only 4½ percent. The NIH is the key area, Madam Secretary, as you know so well, that gives us the new developments, the new discoveries that we can take out into the field and use to help the people across this country—new methods of treating disease, better methods of treating disease, and a more favorable wage scale or cost scale, and a lot of other things.

Is this increase an actual reflection of the true cost of maintaining the current level of NIH research, or does this administration in its budget request contemplate a cut in the actual level of research at NIH?

Secretary **HECKLER**. Obviously, Senator, I share your interest in NIH. I happen to think it is one of the finest investments that the taxpayers of America have ever made. I happen to feel that the new budget will protect the highest priority, which you and I both share, concerning NIH. One of my interests as a new Secretary was to preserve the level of new and competing research grants, because unless you refresh the grant system with new research and researchers, you are not going to continue to produce the ideas that generate answers.

The new budget figure includes an $89 million increase. This is a 2-percent increase for NIH overall. However, we have increased the highest priority area—my highest-priority area—the average cost of research project grants by 5 percent.

Senator **ANDREWS**. But Madam Secretary, the base question is you people and you feel that the budget you are presenting—and I get another bite out of the apple in the HHS Subcommittee, as the chairman, and the rest of us, and that is the proper place to delineate it, but we have to set the parameters of the budget here in the Budget Committee—but you are telling this committee now that in your feeling, the budget estimate for NIH will allow it to continue the current level of research.

Secretary **HECKLER**. Yes, but I would like to check this for Dr. Wyngaarden and provide it for the record.

[The following was subsequently supplied for the record:]

NATIONAL INSTITUTES OF HEALTH

(Dollars in Thousands)

	FY 1983 Actual		FY 1984		FY 1985 Request		Change	
	#	$	#	$	#	$	#	$
New/Competeting......	5,389	$644,219	5,272	$723,187	5,000	$720,285	-272	-2,902
Supplementals......	(385)	16,371	(492)	14,735	(479)	14,140	(-13)	-595
Noncompeting.......	11,532	1,435,366	11,930	1,648,996	12,094	1,755,434	+164	+106,438
Subtotals, Grants..	16,921	2,095,956	17,202	2,386,918	17,094	2,489,859	-108	+102,941
Research Centers...	473	373,416	501	425,503	503	424,267	+2	-1,236
Other Research.....	2,600	218,184	2,700	244,611	2,612	244,062	-88	-549
Training...........	10,577	164,671	9,863	166,512	9,000	164,057	-863	-2,455
R&D Contracts......	1,139	320,319	1,133	331,810	1,079	326,676	-54	-5,134
Intramural.........		498,858		537,045		553,934		+16,889
Resrch Mgmt & Supp.		201,770		216,579		215,291		-1,288
Disease Cont/Const.		56,569		65,761		65,878		+117
NLM................		52,302		50,220		51,320		+1,100
OD.................		25,748		27,336		27,509		+173
B & F..............		17,500		25,040		11,100		-13,940
CC User Fee........		---		---		-7,500		-7,500
Total..............		$4,025,293		$4,477,335		$4,566,453		+$89,118

Senator ANDREWS. That is your intention.

Secretary HECKLER. We have a 5-percent increase for the average cost of research project grants, which totals $2.5 billion in 1985.

Senator ANDREWS. So, then, if we find through the hearings that we have in this committee and in the Appropriations Committee—if we find that there is not sufficient funds to continue the current level of research, and we find that we have to shore that up, I am assuming that that would have your support, because your overall major goal is to maintain the current level of research that is going on out there.

Secretary HECKLER. I would say, Senator, that is my goal. I am very, very interested and supportive of NIH research. At the same time, I think that all goals have to be subordinated to our overall goal within the economy, which is dealing with the deficit, and within our society, which is dealing with inflation.

We are talking about a Department that has a budget of $318.1 billion.

Senator ANDREWS. That is very true, Madam Secretary, but there is a vast difference between spending and investment, and money spent for research, constructive research, at NIH, is an investment——

Secretary HECKLER. I agree, I agree.

Senator ANDREWS [continuing]. That down the line, saves dollars.

Secretary HECKLER. Right.

Senator ANDREWS. And if you do not give a damn about people and just worship the almighty dollar, you are going to save dollars over the next decade by doing the proper kind of medical research at NIH now. So, I appreciate your support of that goal, and we will see if we can implement it in the appropriations process.

Thank you, Mr. Chairman.

[Whereupon, Senator Domenici resumed the chair.]

Chairman DOMENICI. Senator Exon.

FEW PEOPLE UNDERSTAND THE SITUATION

Senator EXON. Madam Secretary, this is just not an offhand comment from a Senator from a rural area, but I find—and maybe I am wrong—I find that basically, from our correspondence, we can find a few people who understand a situation in your Department, but overall, far too many of our programs are designed in the high-population centers, where people live a few blocks from a hospital, rather than lots of miles. Therefore, we are not asking for anything special out there. All that we are asking for is fair treatment.

I am not saying that anyone has intentionally set about to erect barriers that we cannot live with in rural America, but that has been the effect of too many of the decisions.

Therefore, I would hope that you and the people who work for you would recognize that we are asking for a fair shake, and please, do not take what we all too often find is the defensive attitude in not only your Department but other bureaucracies with regard to their actions. We do not think that you are intentionally trying to penalize us, but the result of the decisions that have been made essentially on ill founded or erroneous information have been just devastating and must be corrected. I hope that you will take a good look at it.

Secretary **Heckler**. Senator, I really will. I am very sympathetic to the points that have been made. We have received a lot of correspondence. You know, I served in your body for 16 years, and I know the mistakes that are made in both areas, the executive branch and the legislative branch. From the information I have received, from the letters from Members and Senators representing rural areas, I do think that the application of this law has had serious consequences. But the basic requirement of the rural/urban designation came from the Congress. The way this is applied across the board in the whole government is according to these MSAs.

I will certainly look with sympathy for answers, and ones that can be expedited for the rural areas. But I would not be able to ignore the possibility that the Congress may have to rewrite that urban/rural requirement as maybe being really extraneous to this regulation, because we at the Department did not request it and really did not want it.

Senator **Exon**. Exactly, Madam Chairman, and you could not have put it better. Except, let us move a little more speedily than we have on recommendations to us on what laws we must change, in your opinion, and we will try and get at it over here.

Thank you.

Chairman **Domenici**. I understand that Senator Riegle has a couple of questions.

Senator.

Senator **Riegle**. Thank you, Mr. Chairman.

As you know, Secretary Heckler, we have a number of committees going on simultaneously, but I am pleased to have you here, especially because of our long friendship and relationship as colleagues in the House.

DIFFICULTY CAUSED BY ARBITRARY CUTOFFS

I want to raise an issue with you that I am very concerned about. The question concerns people being knocked off the disability rolls. These people have a medical problem which is verified with medical records and so forth, and they get knocked off without any showing by the Government that their condition has improved, or that the original problem is gone.

As you know, these arbitrary cutoffs have caused enormous difficulty across the country. We have had a number of suicides in Michigan. One family man, in very bad health, who became destitute after being cut off, shot himself to death on the sidewalk in front of the social security office in Lansing, Mich.

We had an older woman who was alone, living in a house trailer, who became despondent after she was cut off. Her health was very bad. She set fire to the house trailer, and died in that fire.

These kinds of things are not unique to my State. In fact, I think a Federal judge in one of the Southern States, within the last week or so, has attempted to enjoin the process that the administration has been following in terms of what many of us think are arbitrary cutoffs.

Now, as I understand it, the administration is against any legislative action by the Congress in this area. There have been many of us on a bipartisan basis, trying to work out a procedure where there would have to be a showing, a medical showing, of an improvement in circumstance before somebody could be knocked off from the benefits. And as I understand it, there is opposition to that from the administration.

SHOULD BE MEDICAL SHOWING OF CHANGED CONDITION

I want to ask one question and that is, can't we reach an agreement that there should have to be a medical showing—and I am talking about a concrete, bona fide medical showing, that somebody's condition has changed; before they are actually removed from the rolls.

Can't we agree to put that practice into effect now, so that we are not inappropriate knocking people off who need to receive these benefits?

Secretary **Heckler**. Senator, I am very sympathetic to the concerns that you have for disabled beneficiaries and for the disabled, and I feel very strongly about that.

I was in Congress and had constituents who I thought were unfairly treated. I had one who really just had to be seen to be acknowledged as truly disabled, and that poor woman did receive a very upsetting notice that her benefits were going to cease.

These things did happen. But I would go back to just one point—I think you might have been in the Senate, but I know I was in the House—when the whole issue of disability was introduced. The reason that the disability review process was put into place was because of the findings by the Carter administration and by GAO that there were massive mistakes made in terms of granting disability payments to those who did not satisfy the definition under the law. And GAO, in its report to the Congress, estimated the amount of overpayment was in the amount of $2 billion.

Senator **Riegle**. Anybody that should not get them should not get them.

Secretary **Heckler**. Right.

Senator **Riegle**. So we agree on that. But why not require a medical finding?

EARLY REVIEW IMPOSED UNDER TIGHT TIMEFRAME

Secretary **Heckler**. All right. So we both agree that anyone who should not get them should not get them. The Congress mandated a review and that early review process was the one that I was outraged by, because I think it was insensitive, cursory, unfair, and really did not meet a fairness criterion. But it was also imposed under a tight timeframe. The Congress said the Department had to review all of the existing cases within 3 years, which was an incredibly heavy workload for the kind of sensitive review that should have been conducted in each case.

So the mandate of time imposed bad conditions. The fact of the matter is that what you and I both want out of the disability process is a fair hearing and fair treatment for the beneficiaries.

Senator **Riegle**. I cannot believe that you would feel that we should cut people off——

Secretary **Heckler**. No.

Senator **Riegle** [continuing]. Until we actually have a clear medical finding. I am talking about a certified medical opinion that in fact, their situation has changed, and they are able to take care of themselves, and they should not receive the benefit.

Why can't we agree on that? Why can't that be the standard?

Secretary **Heckler**. Senator, I believe the standard should be fairness, equity and the requirements of the law. Every, person who is on the rolls or considered to be on the rolls should be evaluated according to the same standards, and therefore——

Senator **Riegle**. Why should we knock people off before we have that medical finding in hand?

Secretary **Heckler**. Well, we should not. We should obviously have——

Senator **Riegle**. But we are doing that today.

Secretary **Heckler**. We should have medical findings of the ability of a person to meet the statutory definition of disability under the law, and——

Senator **Riegle**. Well, why don't we suspend the cutoffs until we actually have the medical documentation in these cases?

Secretary **Heckler**. I want you to know that we are not suspending benefits. We are paying benefits through the highest level of appeal. I also would like you to know, Senator, that as the new Secretary in June, I did announce very substantial changes in the process. For example, the early system that was so unfair, was a paper process, which simply sent out letters. My handicapped woman never would have gotten a letter—she would have been immediately exempt from review because she was obviously handicapped.

FACE-TO-FACE MEETINGS INITIATED

What I have done is initiate a face-to-face meeting at the first level at the social security office in the local community.

Senator **Riegle**. Yes; but that is just on the notice——

Secretary **Heckler**. No, no.

Senator **Riegle**. I am talking about nailing down the medical finding. In other words, I think we should insist on having a document from a medical professional that says, "So-and-So no longer has this disability." And until we have that, I do not think we have any basis for knocking somebody off, especially when it is creating the kind of hardship that you and I have seen.

Secretary **Heckler**. I would say, Senator, that the really important thing is a medical finding of disability and that the medical improvement issue is a totally separate issue.

What we need is a fair standard of disability that is consistent, both for those who are on the rolls and are being reviewed, and those coming onto the rolls. What we have done is to require a face-to-face, evidentiary hearing, in which all the medical records of the individual will be reviewed; all the case history will be brought in. Contrary to that earlier process, that really was unfair, we now have in place, through the reforms that I instituted, a totally fair process. The first step of the process is a face-to-face interview. Subsequently, there is a reconsideration of any disallowance also in a face-to-face evidentiary hearing in which the individual's rights are protected. I am requiring that our Department review all medical history, as well as make a new medical finding in terms of disability per se.

SITUATION BEING DEALT WITH EFFECTIVELY

Senator **Riegle**. Why would you be opposed to us writing a law in this area? Why can't we nail this down clearly with written law? Why isn't that the best way to do it here?

Secretary **Heckler**. Because I think right now we are dealing with the situation effectively. We are reviewing all of the mentally impaired cases, both the past and current. We are going to go back and look at every person who, because of mental impairment, was taken off the rolls on the theory that potentially, they might not have been informed or aware of the fact that they had the right to appeal.

We also feel that what we are doing, in effect, is achieving the standard of fairness in evaluation of disabilities.

Senator **Riegle**. I think you should document that, frankly. And I think that is what the judge said, isn't it?

Secretary **Heckler**. Well, there are judges across the country, of course, and there was one judge who did make that statement. However, let me say regarding the medical improvement standard that there are no statements in the law as to what standard to use. There are many different sets of standards of medical improvement. We want to use the same standard of disability in the initial cases as in the review cases. What we want to do is simply met standards of equity and fairness and justice.

Senator **Riegle**. That is why we are trying to write a bill to do that. We are trying to provide that very thing so that we do not get caught with the arbitrary review procedures implemented by bureaucratic people up and down the line, when there may not be a Secretary at the top who has the same feelings you have.

That is why I think we need a law. I think you ought to fight for the law. Help us do this. You have got Republicans as well as Democrats who want to do it.

NEW LAW WOULD CREATE DIFFERENT STANDARDS

Secretary **Heckler**. Senator, let me say this. I feel very strongly about the disabled. I intend to make these changes as Secretary of this Department and see that they are achieved, and this is the mandate that I have sent out across the country. It is well-known, it is constantly being monitored by me, and I intend to pursue it.

I think this establishes the goal of the legislation regarding disability benefits, and I think that, having met that goal, a new law setting medical improvements would create different standards for eligibility for initial claims, than for continuing review. You would have two different sets of standards. Why not simple fairness, equity, justice? That is what I am working for.

Senator **Riegle**. Well, I have taken enough time. I just want to say that I think you are wrong on this point. I think what you have said puts you into this elastic yardstick that almost guarantees unequal judgmental effects across the country. I think that is what the judge, in a sense, said.

I think we ought to nail it down in law. I think there ought to be one standard. I do not think people ought to lose their benefits until we have a document from a medical professional that says that their condition is improved, and I think that is the route that we ought to travel.

Senator **ANDREWS**. Senator, we told the Secretary and her group that she could leave at about 11:30, and we have the AARP ready to come up.

Senator **RIEGLE**. I thank the chairman, and I thank the Secretary.

Senator **ANDREWS**. Madam Secretary, on behalf of the committee, we want to thank you and your people for coming up here and participating in this testimony.

Secretary **HECKLER**. Thank you, Mr. Chairman.

Senator **ANDREWS**. We would like now, as the HHS group departs, to welcome the AARP and Dr. Davis to the witness table.

[Whereupon, Senator Domenici resumed the Chair.]

Chairman **DOMENICI**. Let's get started.

Mrs. Ostrander, we are delighted to have you here as president-elect of the American Association of Retired Persons. I am not going to give any opening remarks because of the lateness of the time. We look forward to hearing your testimony.

Dr. Davis, we know of your expertise and genuine interest, and we are delighted to have you.

I assume you both have prepared statements. I would indicate now for the record that both of those statements will be made a part of the record in their entirety, and I would urge that you make your opening remarks as brief as possible so that we can have a little time for questions. I do not know if we will get any other Senators at this late hour, but we are delighted to have you here.

STATEMENT OF VITA OSTRANDER, PRESIDENT-ELECT, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mrs. **OSTRANDER**. Thank you, Mr. Chairman.

As you know, I am the president-elect of the American Association of Retired Persons. It is a pleasure to appear before the committee today to talk with you about health care costs and medicare. Since our full statement has been submitted for the record,[1] I would like to take a few minutes to emphasize a few key points.

ELDERLY ARE REACHING THEIR LIMIT

No. 1, the American elderly, and AARP in particular, are concerned about the growing Federal deficit and about rising medicare costs We are concerned that the deficit, if allowed to continue, could sour the economy and undermine programs on which the elderly depend.

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[1] See p. 174.

We are concerned that rising health care costs could make health care unaffordable, but we are also concerned that these same deficits will leave an unconscionable debt for our children, and that rising health care costs will burden all Americans, not just the elderly.

I would like to show you chart 10 first.[1] I think this is the dramatic one that you must look at. This relates to the soaring hospital costs, where we were and what growth, in relation to the Consumer Price Index. I will bring this chart back to you later, that will put an emphasis on it, but I think this is the chart we must not overlook, because this is what we are really talking about.

Chairman DOMENICI. What are the dates on the bottom?

Mrs. OSTRANDER. 1967 through 1983. So you can see the change. All items of the Consumer Price Index have grown 198 percent. The hospital room rate, based on the Consumer Price Index, has grown 520 percent.

Any effort to reduce the deficit must take into account what is behind the deficit: A dramatic loss in tax revenues and a huge and rapid increase in funds for defense. Domestic spending has been cut dramatically, so that both entitlement spending and domestic discretionary spending are shrinking as a share of the budget, but the medicare part is growing.

The elderly have done their fair share to help reduce the deficit. Almost $70 billion in benefit reductions were made in the social security amendments, and many billions more in increased cost-sharing under medicare.

Let us go to chart 5 [2] which shows you—we were at 15 percent of income when medicare first started, as to out-of-pocket. We are now back to 15 percent, with the potential growing still further.

In the area of health care, we hope that this committee will recognize that the elderly are paying, as I just said, their fair share, on average, as where we started from and where we are now. And even without any further changes, they will spend more and more of their income for health care in the future. They are reaching the limit. Indeed, many already have, particularly since elderly women are the most vulnerable for cuts.

If you want to control medicare's costs and help reduce the deficits, including tax expenditure costs, then you have to look at the whole system. I am going to bring you back to this chart.

TAKE A LOOK AT ALL-PAYERS SYSTEMS

Some of the States have enacted all-payers systems, and I want you to take a look at that. They have achieved marked improvement over costs. We urge you to control health care costs across the board, through systemwide all-payers cost controls. Those are the States, and it shows the slowing down of the rate of growth in those costs.

We do not want cost-shifting to our children and grandchildren, nor should you. Recommendations that AARP has made consist of the all-payer system, the limits increases in hospital costs and revenue, not singling out medicare; No. 2, there must be a control on capital costs, if long-term operating costs are to be moderated.

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[1] See p. 200.

[2] See p. 184.

I want to give you an experience that has occurred in my home State. A well-known institution wanted to build a geriatric hospital; very desirable. The majority of the beds are outside of the DRG's. It would not deal with acute care which meant transference of patients. We took the position to oppose it, due to the excess bed capacity in that area. We no longer can allocate resources without considering what those resources should go for.

We have to begin to look at moving away from acute care. We have got to begin addressing a broader range of community-based service.

And finally, let me share with you what our Hamilton Survey has shown us. This was done with all ages. Seventy-two percent of those surveyed favored limits on providers. Fifty-nine percent of those favored Federal and State government control of these costs. There actually was a total of 81 percent that preferred limiting provider charges.

Thank you.

Chairman DOMENICI. Thank you very much.

[The prepared statement of the American Association of Retired Persons follows:]

STATEMENT

of the

AMERICAN ASSOCIATION OF RETIRED PERSONS

before the

COMMITTEE ON THE BUDGET

UNITED STATES SENATE

February 22, 1984

I. INTRODUCTION

The American Association of Retired Persons (AARP) appreciates this opportunity to present its views on the growth of health care spending and measures to assure the financial soundness of the Medicare program. Before turning to the immediate question of health care costs and Medicare in particular, we would like to state our views on the larger framework of the federal budget and the continuing debate over how to reduce the projected deficits.

The Budget, the Deficit, and the Elderly

A sound economy is a necessary prerequisite for assuring the long term well-being of America's elderly. In its absence, the Social Security and Medicare trust funds suffer, jeopardizing the elderly's income support and health care protection. Income from investments declines. Pension funds find their portfolios, and often as a result, their payment levels diminished. Under adverse economic conditions, employment among older workers tends to be an early casualty of recessions. As we saw in the last ten years, the purchasing power of retirement income is dramatically eroded under high rate inflation.

Achievement of a sound economy is placed at risk under current fiscal policy which accepts large and growing deficits. When the economy was still in recession and through the early stages of recovery, such deficits did not pose an immediate hazard. However, as economic growth continues, huge deficits run the risk of absorbing too much of the available supply of credit. This has the effect of pushing up interest rates in the competition for available funds, crowding out private demand for credit needed to facilitate private investment. Some may argue over the question of when the accumulating deficits are most likely to thwart or choke off the economic recovery; but no one should contest the argument that the forecast deficits place continued economic expansion at risk. Moreover, uncertainty and apprehension in the financial markets over just the prospect of large out-year deficits (and the course of Federal Reserve policy reacting to these deficits) may contribute to maintenance of high real interest rates sufficient to stifle business investment.

The American Association of Retired Persons continues to advocate effective and balanced efforts to reduce federal budget deficits. For example, in 1982, AARP supported enactment of the Tax Equity and Fiscal Responsibility Act (TEFRA), even though there were provisions--both tax and spending--to which the Association took exception. Last year AARP supported Senate Concurrent Resolution 27, the First Budget Resolution for FY 84 and the conference report on the First Budget Resolution, H Con Res 91, even though some of the actions underlying the reconciliation instructions would have adversely affected the elderly.

America's elderly want to see the deficits reduced and the economy strengthened. This generation of America's elderly knows the meaning of sacrifice, having lived through the Great Depression and World War II. However, their ability to sacrifice further for the sake of deficit reduction is limited.

Income Status of America's Elderly

What is the income situation of the elderly? First, there is no question but that the economic status of today's elderly has improved from what it was 10 to 15 years ago. That is a major accomplishment in which the Congress and successive Administrations, both Republican and Democratic, can take pride. The elevated poverty rates among the elderly that prevailed in the early 1970's (24.5% in 1970) were reduced to 14% in 1978. Since then the elderly poverty rate has fluctuated between 14.1% and 15.7%. It now stands at 14.6%. In fact, as Chart 1 shows, most of the reduction in the aged poverty rate occurred _prior_ to the implementation of automatic Social Security cost-of-living adjustments. This drop resulted from the large, ad-hoc increases legislated in the early 1970's to address the disproportionately high incidence of poverty among the elderly.

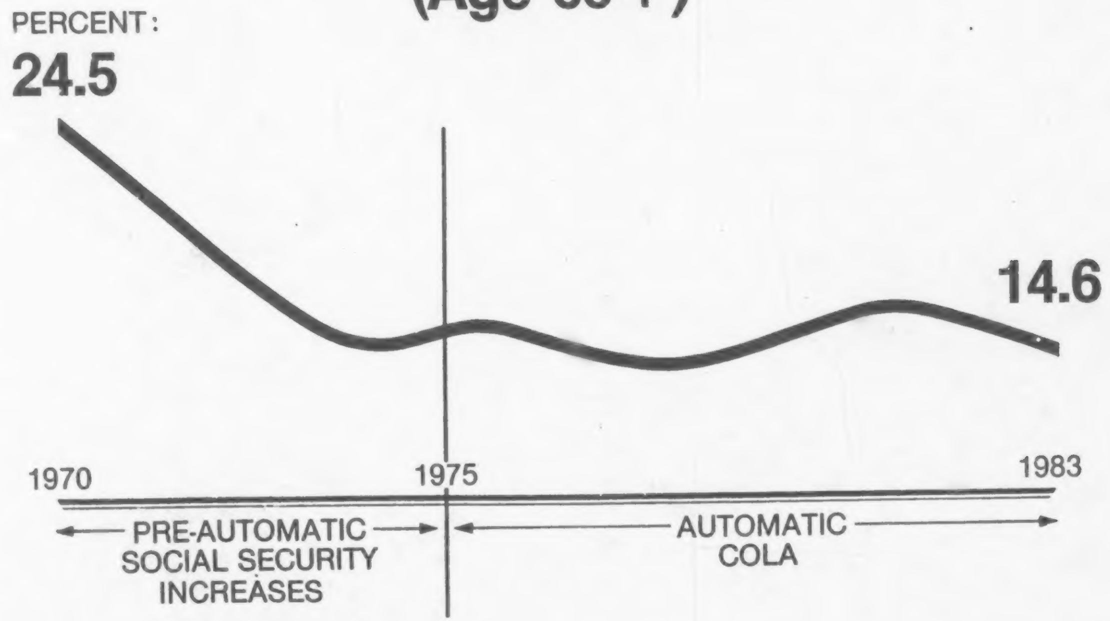
Secondly, the income situation of the elderly is still far behind that of the non-elderly. As Chart 2 shows, median household income of the elderly is only half that of the non-elderly. Since the elderly are concentrated at the lower end of the income spectrum, this makes them more susceptible to even slight reductions in their income, or increases in expenditures such as out-of-pocket health care costs.

In short, further reductions in benefits on which the elderly rely can only lead to a deterioration in their income and health security. Moreover, two further points should be kept in mind.

- First, the elderly have already borne a "fair share" of the burden of deficit reduction; and
- Second, the primary forces driving the projected "structural" deficits are not the rates of growth in the entitlement programs.

CHART 1

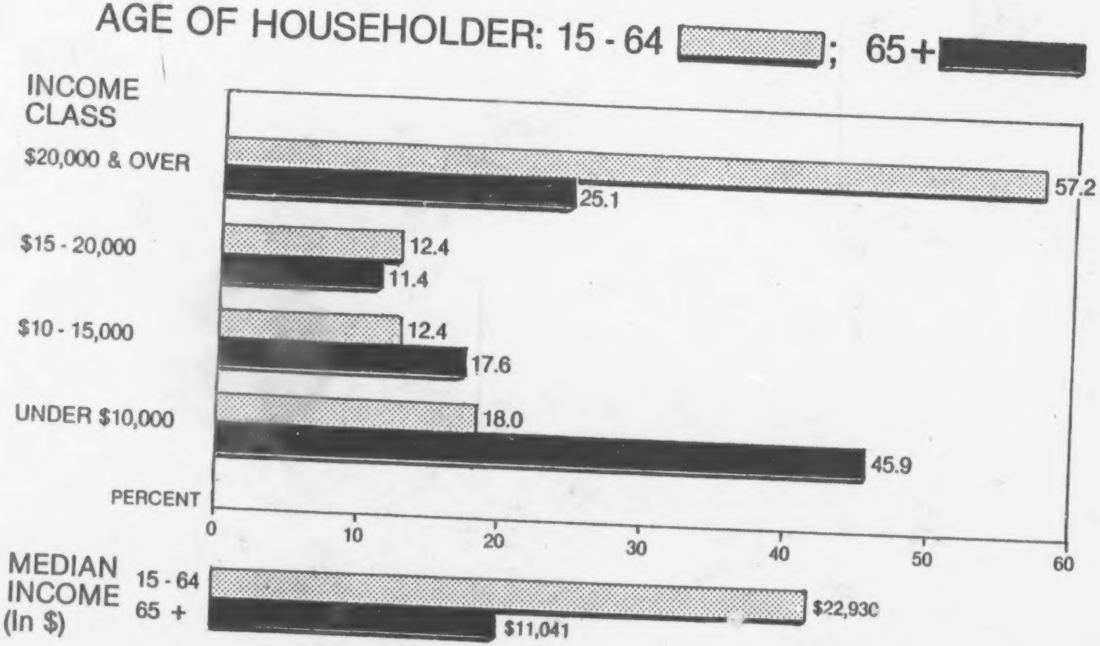
POVERTY RATE
(Age 65 +)



Source: U.S. Bureau of the Census

CHART 2

1982 HOUSEHOLD INCOME: Elderly versus Non-Elderly



Source: U.S. Bureau of the Census. "Money Income & Poverty Status of Families and Persons in the U.S.: 1982"

II. BUDGET REDUCTIONS BORNE BY THE ELDERLY

It has become quite fashionable of late for pundits, public officials and various and sundry "opinion leaders" to assert that the elderly--euphemistically referred to as "recipients of non-means tested entitlements"--have been spared the budget knife and have not done their patriotic duty to reduce deficits. This is just not accurate.

Most of the over $66 billion in benefit reductions were included in the Social Security Amendments of 1983. As chart 3 indicates, $26 billion in spending reductions have been borne by the elderly from FY 82-85 due to action taken by the Congress in just the last three fiscal years (FY 82 through FY 84). These savings continue to grow in future years under current policy, particularly the savings from Social Security, most of which accrue to future years.

As with the overall budget, there are those who assert that the elderly get a free ride for, and are "insulated from, the cost of their health care". This, too, is not accurate.

In the past five years: the Medicare Part A deductible has risen 123%; the Part B premium has grown 88%; charges to beneficiaries for Part B coinsurance have increased 100%; and "charge reductions from unassigned claims, passed on to beneficiaries have increased 198%. Thus far, the cumulative effect on the elderly of Medicare budget reductions is $12 billion (See Chart 4).

Moreover, since Medicare only covers 45% of the elderly's health care bill, even these reductions greatly understate the elderly's rising health care bill.

REDUCTIONS IN FEDERAL SPENDING FOR THE AGED: INCOME SECURITY AND HEALTH PROGRAMS

(FISCAL YEARS 1982 - 1985)

	Benefit Reductions (In Billions)				Cumulative Reductions (In Billions)
	1982	1983	1984	1985	1982 - 1985
Social Security (Function 650)	0.3	1.2	3.5	3.7	8.7
Other Income Security (Function 600)	0.5	0.5	0.6	1.2	2.7
VA Compensation and Pensions (Function 700)	*	0.1	0.1	0.1	0.2
Medicare (Function 570)	0.6	2.7	3.9	5.1	12.3
Other Health Programs (Function 550)	0.3	0.4	0.6	0.3	1.6
Totals:[1]	1.7	4.9	8.7	10.4	25.5

Benefit Reductions and Recovery Resulting from 1983 Social Security Amendments: $66.2 Billion

*Less than $50 million

[1] Columns do not total due to rounding

Sources: Chamber Associates Incorporated; Office of the Actuary, SSA

REDUCTIONS IN FEDERAL HEALTH SPENDING FOR THE AGED

(FISCAL YEARS 1982 - 1985)

	Benefit Reductions (In Billions)				Cumulative Reductions (In Billions)
	1982	1983	1984	1985	1982 - 1985
Medicare	0.6	2.7	3.9	5.1	12.3
Medicaid	0.3	0.4	0.5	0.2	1.4
Other Health Services	*	*	0.1	0.1	0.2
Totals:	0.9	3.1	4.5	5.4	13.9

*Less than $50 Million.

Source: Chambers Associates Incorporated

As chart 5 demonstrates, the elderly are spending more and more of their income for health care. Indeed, the average elderly person is paying out-of-pocket, as much for health care today as when Medicare began. Moreover, under current policy and trends the average elderly person will be spending 19% of their income for health care by the year 2000 . Additional cuts in benefits that result in increases in out-of-pocket costs only add to this trend and hasten the day when health care services for many of the elderly will be unaffordable.

CHART 5

ANNUAL HEALTH CARE PAYMENTS MADE BY THE AGED

	Per Aged Person	Payments as a Percent of Income
1966 (Pre-Medicare)	$300	15%
1977	$698	12%
1981	$1198	14%
1984	$1550	15%
1989	$2208	16%
1993	$2892	17%
2000	$4637	19%

Source: Health Care Financing Administration; American Association of Retired Persons

III. FORCES DRIVING THE DEFICITS

Despite record cuts in domestic programs, as well as passage of the Tax Equity and Fiscal Responsibility Act (TEFRA), the country faces record deficits. The Administration's FY 85 budget is projected to be $180 billion in the red. As Chart 6 shows, the projected current services deficits grow dramatically for each of the next five years. This is so, whether the deficits are viewed in dollar terms or as a percent of GNP.

CHART 6
Federal Budget Deficit FY 83-89
in billions and as % of GNP*

Fiscal Year	1983 Actual	1984 Est.	CBO Projections 1985	1986	1987	1988	1989
Deficit in billions	195	190	195	217	248	282	326
Deficit as % of GNP	6.1	5.3	5.0	5.1	5.4	5.6	6.1

*Assumes 5% Real Growth in Defense
Source: Congressional Budget Office, 12/12/83

While the severity of the recent recession is largely responsible for the FY 83 and FY 84 deficits as well as much of next year's deficit, the deficits in the out-years--1986 and beyond--are largely due to the basic imbalance between spending and taxing. Without a change in fiscal policy, the gap between federal outlays and federal revenues increases in the years ahead.

Any responsible effort to reduce the deficit must recognize the effects of Congressional and Administration action over the past few years. On the tax side, as Chart 7 demonstrates, the effect of Congressional action on revenues has increased the deficit (FY 82-89) by a trillion dollars. CBO projects that, under a standardized employment budget, revenues drop from 19.5% of GNP in 1983 to 19.0% by 1989 mainly due to ERTA.

On the spending side, as Chart 7 also shows, spending cuts in domestic programs reduced the cumulative deficits from FY 82 through FY 89 by almost $500 billion. Although another $317 billion was added back in for defense spending.

CHART 7

INCREASE IN THE DEFICIT ATTRIBUTABLE TO CONGRESSIONAL POLICY ACTION

(Fiscal years; billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	Total
Tax Reduction*	-40	-73	-93	-117	-151	-180	-204	-239	-1097
Defense increases	-1	-17	-25	-36	-42	-54	-65	-77	-317
Nondefense cuts	39	46	48	59	71	74	76	78	491
Effect of Legislative Actions on Interest Costs	*	-2	-9	-19	-32	-49	-72	-100	-283
Net change in deficit due to policy action	-2	-47	-79	-112	-154	-209	-264	-337	

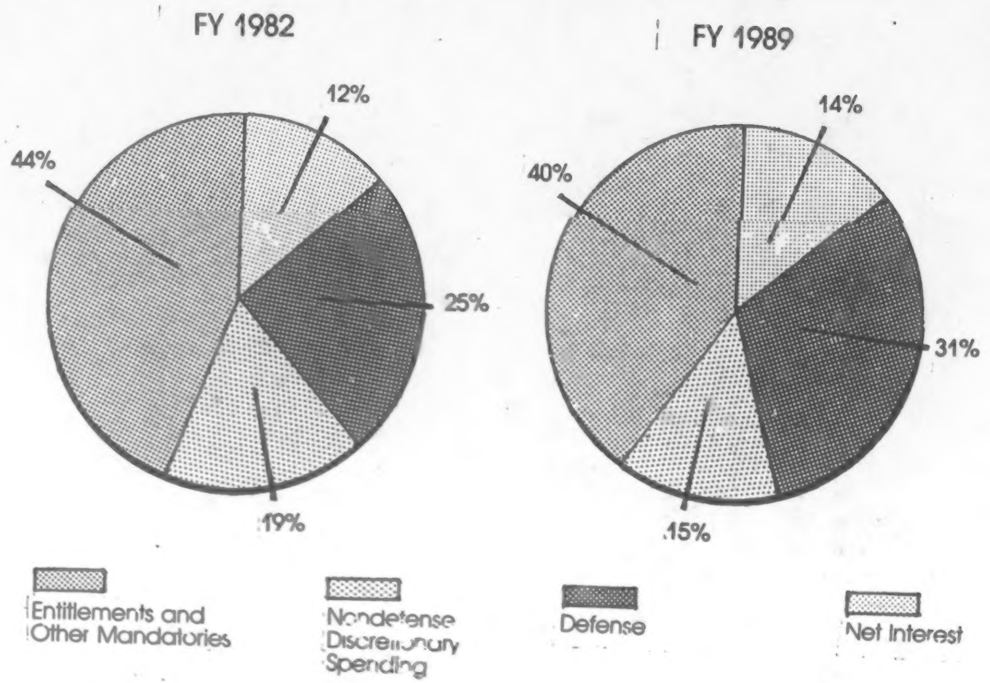
*Primarily the effects of ERTA net of TEFRA
Source: CBO Baseline Projections for Fiscal Years 1985 to 1989.

As Chart 8 shows, the mix of federal spending has been dramatically changed in the course of just the last three fiscal years (FY 82-84). Both as a percent of GNP and as a share of outlays, spending for national defense and interest costs are up, while

CHART 8

COMPOSITION OF OUTLAYS IN THE FEDERAL BUDGET

Percent of Total Outlays



spending for all domestic programs including the so-called "uncontrollable entitlements", is down. (Within the entitlement area, the Medicare program continues to grow at a rapid rate--a rate which cannot be sustained if the program is to remain viable). The Administration's FY 85 proposals would aggrevate these trends, leaving a legacy of huge deficits.

In light of the above fiscal trends, AARP recommends that the Administration and the Congress address the deficit primarily by: (1) applying the same scrutiny to defense spending as has been applied to non-defense spending thereby reducing its rate of growth; and (2) restoring the revenue base to a fiscally prudent level. Further reductions in domestic spending should not come from benefit reductions in human services programs. Unfortunately, a balanced budget is unattainable in the immediately foreseeable future. However, a steadily declining deficit, rather than a growing one, is achievable and essential if the economic recovery is to be sustained.

IV. CURRENT MEDICARE PROPOSALS

This leads us to the subject of spiraling health care costs and their effects on the Medicare program. Like it or not, Medicare is a budget issue as well as a health care issue. Medicare spending is growing at a rapid rate. While outlays for Part A are projected to slow slightly, outlays for Part B continue past trends.

A long list of proposals is before the Congress with respect to the Medicare program. Virtually all fail to address the underlying forces driving up health care costs. Instead, these proposals would simply shift costs to beneficiaries and/or taxpayers.

Administration Proposals

The Administration, in the Medicare portion of its FY 85 Budget, has proposed many of the same recommendations made last year. Most of the proposals would impose new cost-sharing burdens, directly or indirectly, on elderly Medicare beneficiaries and would do little to slow the rate of increase in health care costs. The following sections review some of the more important of these proposals.

* Delay in Eligibility for Medicare

This is the third year that the Administration has offered this proposal. Under current law, eligibility for Medicare begins on the first day of the month in which an individual's 65th birthday occurs. This proposal would defer eligibility to the first day of the month following the month of the 65th birthday. This proposal could create a gap in health insurance coverage for those who are age 65 but are not yet into the month following their 65th birthday. Filling this new gap in coverage will increase beneficiaries' out-of-pocket costs for supplemental insurance or risk financial ruin for those subject to acute care but lacking insurance.

* Increase Part B Premium

This proposal, originally made by the Administration in its FY 84 Budget, would nearly triple the Part B premium by 1990 from $146.00 in 1983 to $492 in 1990. Over 5 years, increased out-of-pocket premium costs to individual Part B enrollees would be $734 while for a couple it would be $1468, almost a 50% increase.

This proposal is particularly onerous because it comes on top of huge increases in beneficiary cost sharing under Part B over the past several years:

--An 88% increase in the Part B premium over the past five years;

--Almost a 100% increase in charges to beneficiaries for Part B coinsurance over the past five years;

--A 198% increase in "charge reductions" passed on to beneficiaries for unassigned claims.

Moreover, beneficiaries pay for over 60% of Part B physician charges under Medicare Part B.

If accompanied by a period of low rate inflation, the net effect of this proposal could be a reduction in Social Security checks. If accompanied by a further cut in cost-of-living adjustments, as some have proposed, it would almost certainly lead to reduced Social Security checks, while health care costs continue to grow.

CHART 9
Comparison of Enrollee Premium Rate For Supplementary Medical Insurance Program Under Present Law and Under Proposal to Increase Enrollee Share From 25% in 1984 to 35% in 1988 and After, Intermediate Assumptions

Part B Premium Rate

Year	Present Law	Proposal
1984	$14.60	$14.60
1985	16.90	18.00
1986	17.70	21.60
1987	18.40	25.70
1988	19.20	30.50
1989	20.00	36.00
1990	20.80	42.30

Additional Premiums Paid under Proposal, 1985-1990
Single Person: $734.40
Married Couple: $1,468.80

* Physician Fee Freeze

This proposal originally made by the Administration in its FY 84 budget would freeze the "fee screens" for physician charges under Medicare Part B thereby freezing for a year Medicare's allowed charges for physician reimbursement. While ostensibly a "provider cut" it will likely have a serious negative effect on the rate of physician assignment acceptance, resulting in even greater out-of-pocket costs to the elderly.

Currently, only 52 percent of all claims submitted to Medicare are submitted by physicians as "assigned" claims, (i.e., the physician is willing to accept Medicare's approved charge as payment in full, in which case Medicare pays 80% and the beneficiary 20%). Only 20% of physicians accept assignment in all cases. In 1971 (fiscal 1972) President Nixon inaugerated the Economic Stabilization Program (ESP), imposing a wage and price freeze. Between August 1971 and April 1974, while the ESP was in force, the physician assignment acceptance rate fell more than 11 percentage points.

- Increase Part B Deductible

The Administration would increase the Part B deductible annually according to the Medical Economic Index (MEI). HCFA estimates that this would increase the deductible from the current $75 to $80 in calendar 1985. Again, this proposal merely shifts costs, increasing beneficiaries' already high out-of-pocket costs for physician services.

- Medicare Voucher

As in FY 84 the Administration again proposes that beneficiaries have the option each year of receiving a fixed sum or credit (voucher) to purchase private health insurance coverage in lieu of Medicare coverage. AARP believes that further study is needed before any voucher proposal can be considered a realistic alternative to current Medicare benefits. Such factors as incorporating health status in the determination of the voucher amount and disseminating adequate and comprehensive information about the option are far from assured in the Administration's recommendation. Moreover, a study prepared for HCFA in 1982 on vouchers indicates that costs for a voucher might be greater than current Medicare costs. More importantly, AARP is concerned that setting a voucher amount could be an easy target for achieving budgetary reductions by limiting the amount of the voucher, even if it no longer paid for access to adequate care.

Medicare Recommendations of the Advisory Council on Social Security

A second set of proposals which fall into the cost-shift category is that of the quadrennial Advisory Council on Social Security. AARP opposed most of the Advisory Council's final Medicare recommendations because they fail to address adequately the underlying forces driving up health care costs. In addition, they fail to balance the legitimate interests of taxpayers, consumers, the elderly and health care providers. The Council would attempt to resolve roughly two-thirds of the projected Hospital Insurance Trust Fund deficit ($300 billion by 1995) by asking Medicare beneficiaries to pay more out-of-pocket for health care services and by increasing taxes on consumers. The following sections review the Council's major recommendations.

* Raise Medicare Eligibility Age to 67

The Council would increase the age of eligibility for Medicare from 65 to 67 beginning in 1985 with full implementation in 1991. This proposal generates the largest savings, $66 billion over the period 1985 to 1995. This proposal would have a devastating effect on the economic well-being of the elderly as well as risk their access to health care. Its impact on those who retire prior to age 67 has not been thoroughly evaluated nor has its impact on employers with older workers. While little data exists on how much today's pre-age-65 retirees pay for health insurance, it is likely that the cost of health insurance for the 65-67 age group will be no less than $3400 per year. This figure represents the current cost of Medicare Parts A and B for those required to pay for it ($2035 per year) plus the costs which private insurers associate with marketing, reserve requirements, and underwriting. Premiums of this magnitude would make health insurance coverage unaffordable for a vast majority of those disenfranchised from Medicare. In fact, using 1984 figures, a $3400 per year premium in addition to the expenses beneficiaries currently pay out-of-pocket for required Medicare copayments and services not covered by Medicare would consume 43% of the average per capita income of an elderly person. Such a proposal would place older women, many of whom live alone and suffer greater economic hardship, in a particularly cruel dilemma.

* Impose New Part A Cost-Sharing and Raise Part B Premium

The Council would impose new Part A cost sharing, or alternatively force the elderly to pay a much higher Part B premium. Under the Council's proposal, beneficiaries would be faced with a "Catch-22" choice. They could keep Part A (hospitalization) coverage, but be subject to new copayments for each and every day they are hospitalized. However, if they chose this option, they would have to give up all protection under Part B (physician services), for which they now pay a premium. Or, in order to keep Part B they would, in 1985, have to pay an additional $98. This would waive the proposed additional coinsurance under Part A. (This would be in addition to the scheduled $199.00 a year for the Part B premium in 1985.) Of the $98, $56 (or 57%) would be to offset the new coinsurance under Part A. The other $42 (or 43%) is simply a surcharge to raise money for the Part A trust fund,--a provision which, in effect, rewards the hospital industry with more money. Beneficiaries would still be liable for the Part A deductible, now $356, which increases annually. In essence, this change asks beneficiaries to pay for coverage that is currently provided at no charge, and to bail out hospitals.

* Increase Part B Deductible

The Council would increase the Part B deductible annually according to the CPI. Again, this proposal merely shifts costs, increasing beneficiaries' already high out-of-pocket costs for physician services. Moreover, it does nothing to address the financial difficulties of the HI Trust Fund.

* Physician Acceptance of Assignment

The Council would have physicians decide each year whether or not to accept assignment for all their Medicare patients. AARP believes that this proposal would result in a decrease assignment rate and increase out-of-pocket costs. Under the current claim-by-claim practice almost half (48%) of Medicare claims are unassigned. Charges to beneficiaries associated with unassigned claims have increased 198% over the past 5 years and are the largest component of out-of-pocket payments made by beneficiaries for physician services. A 1983 HCFA study found that "the assignment rates nationwide would fall about 10%" under an "always or never" assignment acceptance option similar to that of the Council. Rural elderly could be severely penalized under such a proposal.

* Medicare Voucher

In order to "foster competition," the Council recommends that beneficiaries have the option each year of receiving a fixed sum or credit (voucher) to purchase private health insurance coverage in lieu of Medicare coverage. AARP believes that further study is needed before any voucher proposal can be considered a realistic alternative to current Medicare benefits. Such factors as incorporating health status in the determination of the voucher amount and disseminating adequate and comprehensive information about the option are far from assured in the Council's recommendation. Moreover, a study prepared for HCFA in 1982 on vouchers indicates that costs for a voucher might be greater than current Medicare costs. More importantly, AARP is concerned that the process used in setting a voucher amount could be easily manipulated for the purpose of achieving budget reductions; that, in turn, might result in a voucher amount less than adequate to cover the cost of health care protection.

* Payroll Tax Revenue

On the tax side, AARP supports the Council's decision to recommend no additional increases in payroll taxes. Payroll taxes bear down most heavily on low income workers. Payroll tax increases also feed inflation and dampen employment.

* Increase Alcohol and Tobacco Taxes

At this time, AARP opposes the Council's recommendation to increase alcohol and tobacco taxes and earmark the generated revenue for the HI Trust Fund. While a case can be made for earmarking revenues from these sources, new sources of revenue should not be added to the HI Trust Fund until the rate of increase in health care costs, particularly hospital costs, is brought under control.

* Tax Cap

AARP also opposes the Council's recommendation to consider a certain portion of employer-paid health insurance premiums as taxable income to the employee. Simply placing a flat cap on the tax-free allowance for employer paid health insurance premiums fails to recognize the complexity of the economic incentives in the health care marketplace. If health care costs are not controlled and if this "tax cap" does not keep pace with the rate of increase in health insurance premiums, health insurance benefits for workers and their dependents could rapidly erode. While other proposals in this area may contribute to controlling system costs, this specific proposal falls short.

* Limit Increase in DRG Payments

The Council's only recommendation to slow rapidly rising hospital costs is to urge the Secretary of Health and Human

Services to limit the annual rate of growth in DRG payments to the rate of change in the hospital market basket. Under current law, until 1986, DRGS are scheduled to increase each year with the hospital market basket plus 1.0%. Unfortunately, since this would be applied only to Medicare, this proposal would risk cost-shifting to private pay patients.

V. ALTERNATIVES TO MEDICARE CUTS THAT ADDRESS THE UNDERLYING CAUSES OF HEALTH CARE COSTS

AARP believes that changes in the Medicare program should focus on the forces driving up health care costs and not on changes that merely shift costs to beneficiaries and taxpayers.

Solving Medicare's problems cannot, in our view, be accomplished in a vacuum, since Medicare's problems are only a reflection of health care costs in the entire economy.

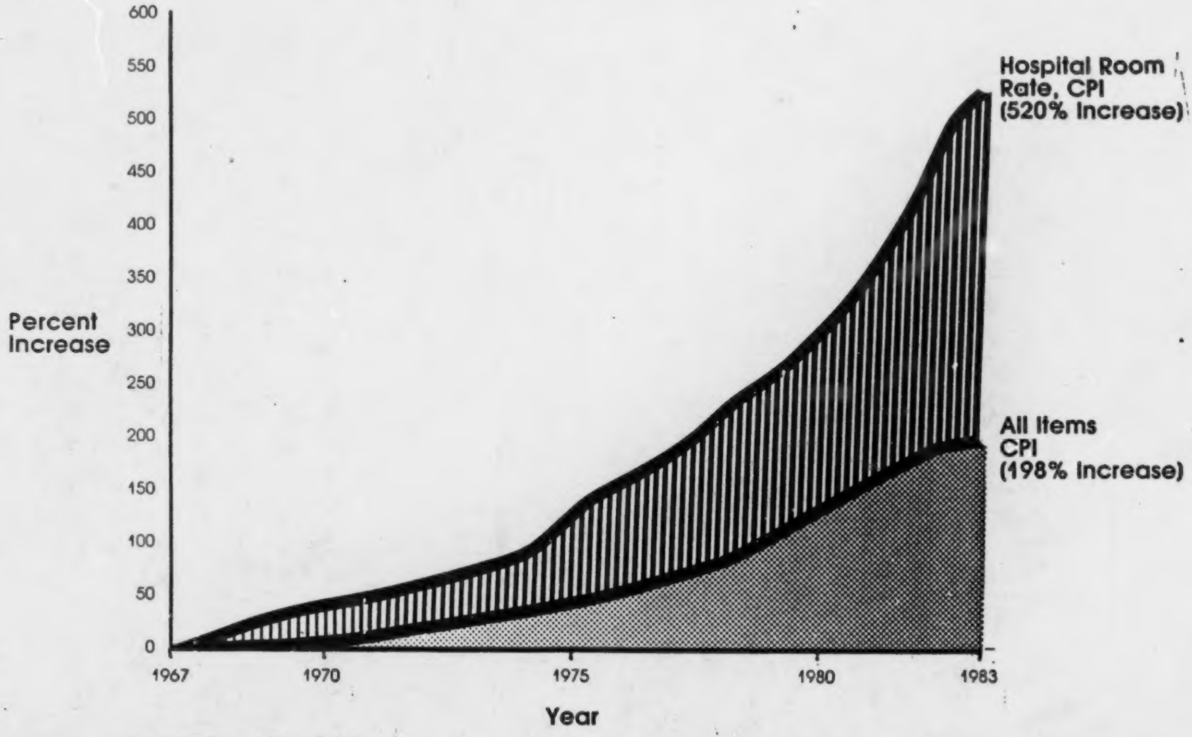
National health expenditures have increased sevenfold since 1965 and, in the last three years, have escalated most dramatically from $249 billion in 1980 to $322 billion in 1982--an increase of over $73 billion. This means that we now spend nearly $1 billion a day on health care. By 1990, health spending will have more than doubled, reaching $757.9 billion--a rate of spending of over $2 billion a day.

Hospital costs are the leading factor in the health care cost spiral. As shown in Chart 10, since 1967, hospital room rates have increased by 520%, two and one-half times greater than the increase in the general (All Items) CPI.

The federal government, as the major purchaser of health care services, cannot shrink from its responsibility to deal effectively with the health care cost escalation problem. Since approximately 75 percent of all Medicare expenditures are payments to hospitals to cover the cost of services provided to Medicare eligible elderly and disabled patients, the federal government has the market power and should have the financial

CHART 10

SOARING HOSPITAL COSTS



Source: U.S. Bureau of Labor Statistics

interest to dampen the excessive rate of hospital cost increases. CBO projects that only 6% of the projected growth in HI costs is attributable to the elderly.

Federal costs for physician services (Part B of Medicare) are rising faster than Part A costs. Moreover, beneficiaries are increasingly hard hit by rising costs for physician services. As noted earlier, beneficiaries bear 60% of the costs of physician services under Part B, and their out-of-pocket costs over the past five years have risen dramatically.

The elderly are already doing more than their fair share to cover the rising cost of physician services under Part B. At a time when the average physician salary, net of expenses, is over $100,000, (according to the American Medical Association); it is time for Congress to look to others than beneficiaries to control rapidly rising costs of Part B.

More Than Medicare Costs at Stake

However, controlling health care costs is not only a problem on the spending side of the budget, but also the tax side. As Table 11 shows, health related tax expenditures, such as those resulting from the tax exempt status of hospital construction bonds, and the exclusion from employees' gross income of employer-paid allowable portion of group health insurance premiums are also expanding rapidly. Indeed, the tax expenditure resulting from the exclusion of employer contributions for premiums is now as large as the cost of the Medicaid program. The increasing drain to the Treasury in the tax expenditure area rgues for a system-wide approach to controlling costs.

CHART 11
Selected Federal Tax Expenditures for Health, 1968-1986
(in billions of dollars)

Corporate Income Tax	1968	1973	1978	1983	1984	1985	1986
Exclusion of interest on state/local hospital bonds	----	----	----	0.80	0.96	1.12	1.26
Individual Income Tax							
Exclusion of employer contribution for insurance premiums and care	1.40	3.00	6.24	18.64	21.30	24.28	27.68
Deduction of medical expenses	1.60	2.10	2.44	3.10	2.63	3.07	3.37
Exclusion of interest on state/local hospital bonds	----	----	----	0.38	0.47	0.54	0.62

The extraordinary rate of increase in health care costs is having the same effect on the cost of private, employer sponsored, group health insurance as it is on the cost of the Medicaid program. From 1975 to 1981, there was a 130% increase in expenditures for health insurance premiums, mostly employer-paid (Chart 12).

A recent study by the accounting firm of Coopers and Lybrand found that corporate medical plans are costing employers $1,000 per employee on average, with some as high as $3,500 per employee and 20% of payroll. These increased costs are reflected in the cost of goods and services throughout the economy.

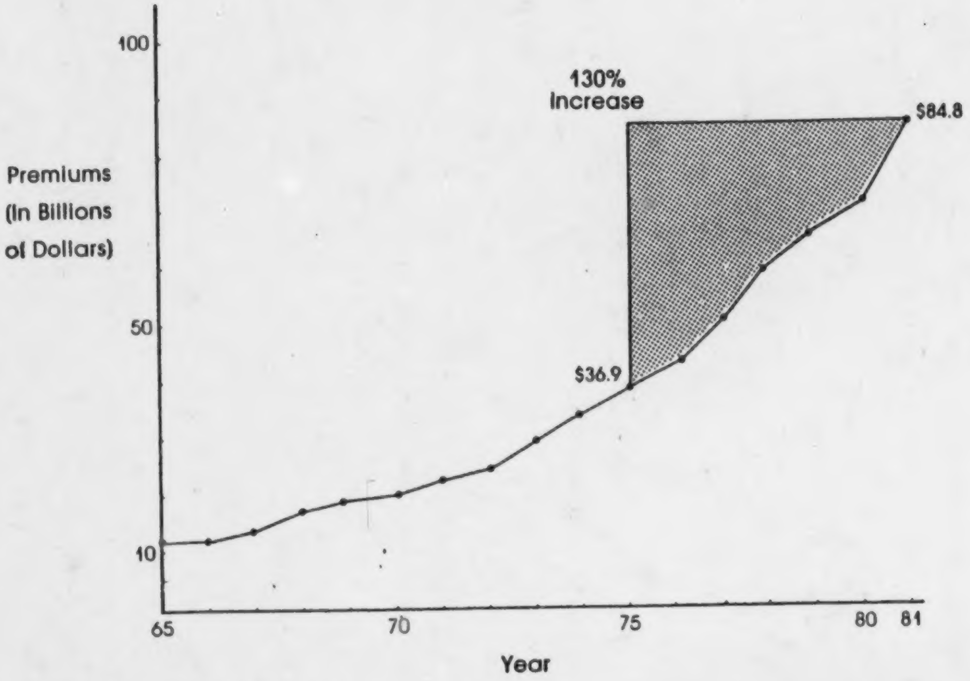
AARP Recommendations

The Association has long urged the Congress to establish across the board (i.e., all-payor) limits on increases in hospital costs and revenues. Such an approach would not single out Medicare or Medicaid

CHART 12

CHART 12.

Rise in Private Health Insurance Premiums



Source: Health Insurance Association of America beneficiaries for special restrictions. Time and again, experience has demonstrated that Medicare-Medicaid specific approaches to hospital cost containment merely lead to cost shifting to private paying patients and their third-party payers and thus effect no reduction in the rate of increase in total hospital costs.

To restrain the rate of increase in total health care spending, the following cost containment strategy should be pursued: First, the rate of increase in hospital expenditures should be limited to a fixed percentage rate that is reasonably in line with the general inflation rate; the limit once established should apply to all third-party payments to hospitals. Second , the economic incentives that are causing excessive expansion of conventional medical facilities, particularly hospitals, should be removed; for example, by imposing limits on depreciation deductions when hospitals/nursing homes are sold. Capital costs must be controlled if long term operating costs are to be moderated. Third , health care service delivery should be restructured away from acute-care institutional settings, with greater emphasis placed on community and home-based services. Over the long run, health care delivery should be restructured to expand the supply of needed services that represent less costly alternatives to hospitals and nursing homes. Alternative forms of care delivery such as health maintenance and preferred provider organizations (HMO's and PPO's), small clinics, and ambulatory health care facilities of all kinds should be encouraged to the extent possible.

A recent nationwide public opinion poll conducted by Hamilton and Staff, Inc. for AARP found that 72% of those surveyed across all age groups favored limits on how much medical care providers can charge. Of these, a majority, 59%, favored federal and/or state government action to control these costs. Only 18% would rely on health care providers to control costs.

When asked their opinion on how to solve Medicare's problem, 81% prefer limits on provider charges. As Chart 13 shows, this preference holds across all age groups.

CHART 13

	Nation-wide	Age			
		25-34	35-44	45-64	65+
	%	%	%	%	%
Limit Provider charges	81	83	81	81	79
Raise Taxes	8	6	10	9	9
Reduce benefits	5	6	4	4	5
No opinion	6	5	6	6	8

If Congress is unable to adopt uniform, across-the-board limitations on increasing hospital costs, then alternatively, the Association recommends that Congress actively encourage and require the states to adopt mandatory hospital cost control programs that conform to certain strict standards. In some cases, states are in a better position than the federal government to implement effective health care cost-containment programs.

Six states (Massachusetts, Connecticut, New York, New Jersey, Maryland and Washington) have had some measure of success in limiting hospital cost escalation by utilizing mandatory prospective budgeting and/or rate review programs. As a result, increases in hospital costs in these six states have consistently averaged three to four percentage points less each year than in other states. In 1982, the mandatory review states limited increases in hospital costs to 10.8 percent, while all other states experienced hospital cost increases of 16.3 percent. (See Chart 14.) The experience in these six states demonstrates that hospital costs can be significantly restrained by regulatory action.

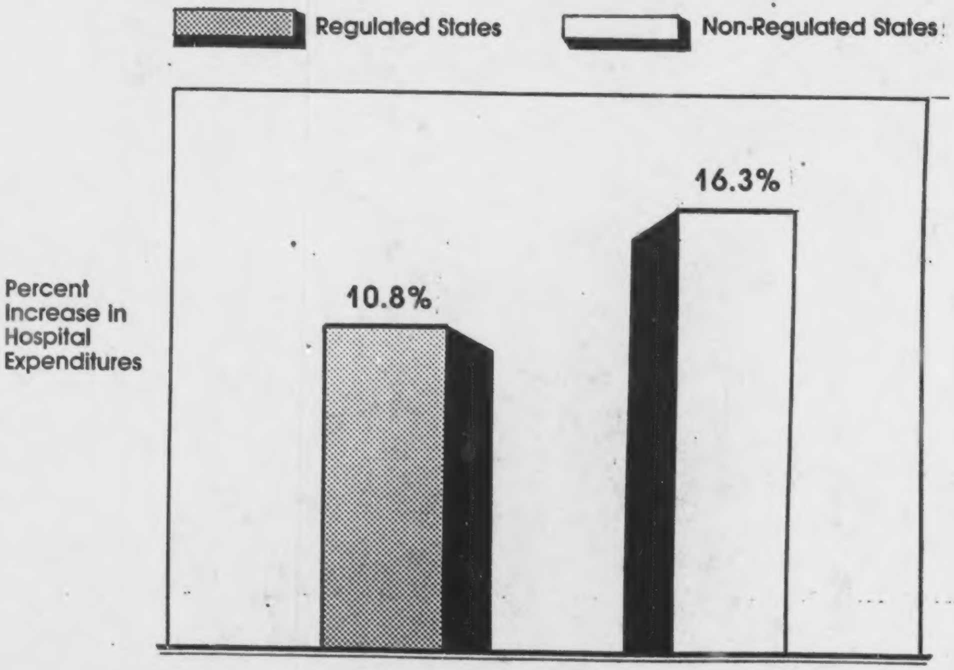
We urge Congress to provide financial incentives for states to initiate effective all-payers, hospital rate review programs which can produce substantial savings to both government and private purchasers

produce substantial savings to both government and private purchasers

of hospital care services. Had all states held their increases in hospital costs to that experienced by the six states with mandatory rate review, hospital expenditures nationwide would have been $12 billion less in 1981. AARP believes such state hospital rate review programs have demonstrated their ability to reduce health care costs.

HOSPITAL EXPENDITURES UNDER MANDATORY RATE REVIEW SYSTEMS

(1982 — 1983)



Source American Hospital Association

VI. CONCLUSION

As in the past, AARP is prepared to work with the Senate Budget Committee to help fashion a constructive and effective deficit reduction package and to address rising health care and Medicare costs. However, we urge the committee to fashion remedies that respond to the forces pushing up the deficit and driving health care costs and not merely shift greater burdens to those who rely on federal programs--particularly the elderly.

Chairman DOMENICI. Dr. Davis.

STATEMENT OF DR. KAREN DAVIS, CHAIRMAN, DEPARTMENT OF HEALTH POLICY AND MANAGEMENT, SCHOOL OF HYGIENE AND PUBLIC HEALTH, JOHNS HOPKINS UNIVERSITY

Dr. DAVIS. Thank you, Mr. Chairman.

I will just highlight some of the points that I made in my written statement.

I do appreciate the opportunity to testify on the fiscal 1985 budget, especially alternatives to assure a sound and adequate medicare program for the elderly and disabled. We all know that the medicare program faces serious challenges in the years ahead. Health care costs continue to soar. There is a deficit projected for the medicare hospital insurance trust fund.

Health care expenditures for the elderly have grown very rapidly in recent years. We are now at a situation where the total amount spent in 1981 for health care for the elderly averaged $3,100 per aged person, and that compares with about $800 for those under age 65. Medicare and medicaid are very important to the elderly and also to the disabled and the poor in meeting their health care bills. Expenditures under medicare and the Federal part of medicaid, in fiscal 1985, will exceed $100 billion, or 10 percent of the Federal budget.

While the focus is mostly on medicare, I would point out that medicaid is also very important to the elderly and disabled. Forty percent of medicaid dollars go for the elderly; about 70 percent go for the elderly and disabled.

ELDERLY FACE SERIOUS FINANCIAL BURDENS

Despite these programs, many elderly people already face serious financial burdens in meeting their health care expenses. In 1980, 6 percent of the elderly had out-of-pocket health care expenses exceeding $1,000. These out-of-pocket expenses are particularly burdensome for two groups of elderly: those who do not have any supplementary coverage to medicare, individuals who have neither medicaid nor private health insurance to go with medicare, and those with serious health problems, who can find their out-of-pocket bills mounting up very rapidly.

Despite the fact that medicare covers only 45 percent of the health expenditures for the elderly, and leaves some elderly facing serious financial burdens, the proposals that have been advanced would for the most part simply increase the financial burden on the elderly. The Reagan administration's fiscal 1985 budget contains few positive solutions to the problems faced by medicare. There is no recommended solution to the impending deficit crisis in medicare; there is no proposed solution to rising health care costs, either for hospital services or physician services; there is no relief for those facing heavy financial burdens from health care bills now, and there is no new approach to assuring that those frail elderly receive adequate long-term care so that they can live out their lives in dignity.

Instead, the Reagan administration budget would increase costs to the elderly and disabled by at least $1 billion in fiscal 1985, and it fails to provide any plan to guarantee the long-term financial soundness of medicare.

Some of the proposals that have been advanced—one is the proposal that was in last year's Reagan administration budget, which is called medicare hospital cost-sharing, and would have required the elderly to pay a coinsurance for their hospital care. This is also an option being considered by the Advisory Commission looking at medicare. While this proposal has been billed as a benefit to the aged, it would in fact, impose heavy financial burdens on the elderly, particularly those who have serious health care problems, those who are in the hospital more than once during the year, or those who have very long hospital stays.

Another proposal that is in the Reagan administration budget again this year, the so-called freeze on physician charges, promises to save $600 million in the fiscal 1985 budget. Of course, it is not really a freeze on what physicians can charge. It is simply a freeze on what medicare would pay. And I do disagree with Secretary Heckler that this would not pose a financial burden to the elderly. In fact, since only about 50 percent of the claims under medicare are assigned, I think one could estimate that at least half of that $600 million savings to the budget would be, in fact, additional costs to the elderly.

Another proposal that is in the budget again this year is to increase the medicare part B premium and deductible. That would have the budget about $336 million in fiscal 1985, but again, that is just increased direct costs to the elderly for higher medicare premiums and deductibles.

The administration is also proposing a voluntary medicare voucher, which would give the elderly a voucher set at about 95 percent of the cost of the medicare program, which they could use to buy private health insurance. There is little evidence that that would save money. In fact, administrative costs under private insurance plans to the elderly tend to run at a much higher rate than does the medicare program. Furthermore, private health insurance plans do not have the kind of costs controls and provider payment incentives that are built into the medicare program.

NEW PROPOSALS SHOULD BE LOOKED AT

Therefore, I think we have to look to other sets of proposals about what to do about medicare, both in the short and the long term. Proposals that would increase the share of health care bills paid by the elderly under medicare would just further undermine the adequacy of the medicare program. As we know, the medicare program now only picks up 45 percent of the bills of the elderly.

It is clear that the dominant strategy for dealing with health costs in medicare must be effective, systemwide health care cost containment, placing limits on hospital spending for all patients, not just those covered by medicare, and protecting the elderly from burdensome physician fees.

Specific steps the Congress could take include limiting the allowable rate of increase in the medicare hospital prospective payment rates to the increase in hospital market-basket inflation, plus 1 percentage point for a period through 1989. That would mean extending the current legislation out through 1989. But I would also suggest that the Congress enact a residual, Federal, all-payer hospital prospective payment system for those States who do not voluntarily adopt such systems, so that we would not just be limiting rates of increase for payment for care of the elderly and disabled.

Another step is to establish a prospective physician payment system for medicare and require physicians to accept medicare prospective payment rates for all services, or at least those rendered to hospital in-patients.

Effective cost containment approaches could do much to reduce the projected deficit in the medicare trust fund. Strategies that would increase payments by the near-poor elderly and also those with very serious health problems should be avoided. Consideration, in fact, should be given to a fundamental reform of medicare that would improve, rather than further reduce, its benefits. This would include an expanded benefits program, a package including long-term care, and a moderate ceiling on out-of-pocket expenses for all medicare benefits. With such improved coverage, many elderly could abandon the purchase of costly medigap supplementary insurance coverage that is frequently a poor buy, with low benefit return for premium dollars expended.

COUPLE FINANCING REFORM WITH IMPROVED COVERAGE

Improved coverage should be coupled with financing reform, including merging the medicare hospital insurance, or part A trust fund, with the supplementary medical insurance or part B of medicare, into a new, single medicare trust fund. Merger of part A and part B into a single trust fund could provide greater stability in funding for medicare. The current hospital insurance payroll tax receipts could go into this fund, along with current general revenues, to support part B services.

The current part B premiums could be replaced with a new medicare premium, administered through the income tax system, and varying with income. This premium tax would actually reduce the current premium paid by the near-poor elderly. It could be raised for higher income elderly to provide additional revenues to reduce future projected medicare deficits. An optional additional premium tax could be assessed for those elderly desiring comprehensive long-term care benefit protection.

These ideas require careful consideration and debate, as the Congress explores ways to insure the long-term adequacy and fiscal stability of the medicare program, but it should not be forgotten that medicare is essential to assuring that many of our Nation's most vulnerable citizens can live out their lives with dignity, free of the worry of financial ruin that major illness can bring.

Current fiscal problems should not cause us to lose sight of the major steps that need to be taken to improve, rather than dismantle, the medicare program.

Thank you.

Chairman DOMENICI. Thank you very much.

[The prepared statement of Dr. Davis follows:]

PREPARED STATEMENT OF DR. KAREN DAVIS, CHAIRMAN, DEPARTMENT OF HEALTH POLICY AND MANAGEMENT, SCHOOL OF HYGIENE AND PUBLIC HEALTH, JOHNS HOPKINS UNIVERSITY

Thank you for this opportunity to testify on the FY 1985 budget, especially alternatives to assure a sound and adequate Medicare program for the elderly and disabled. The Medicare program faces serious challenges in the years ahead. Health care costs continue their upward spiral—even with new measures taken by the Congress and the private sector. As a result, Medicare outlays for FY 1985 will surge ahead by 16 percent above the current fiscal year outlays. The Congressional Budget Office estimates that even with stringent hospital cost containment measures the cumulative deficit in the Medicare program by 1995 will hit almost $100 billion. At the same time, recent cutbacks and soaring inflation are placing increasingly heavy financial burdens on the 30 million Medicare beneficiaries—many of whom struggle with serious disabling conditions, limited financial resources, and catastrophic medical expenses. Some aged and disabled persons face serious financial hardship and even go without needed care because they can not afford it.

Today, I would like to summarize for the Committee the financial burden of health costs on the elderly, including new information on the distribution of out-of-pocket health expenses among elderly people, and the impact of the Reagan Administration FY 1985 budget proposals on the elderly and disabled. I will conclude with some comments on steps that the Congress could take to alleviate the financial burden of high health costs on the elderly, while assuring a fiscally sound and stable future for Medicare.

HEALTH CARE COSTS AND THE ELDERLY

Inflation in health care costs continues to be a serious problem in the U.S. In 1982, the U.S. spent $322 billion, or 10.5 percent of the Gross National Product on the health sector. In just three short years, health spending increased by 50 percent—considerably faster than inflation in the economy and than growth in family incomes.

Health care expenditures for the elderly have grown even more rapidly in recent years. In 1977, the U.S. spent $43 billion on health services for the elderly, or 29 percent of all personal health care expenditures. By 1981, this had increased to $83 billion, or 33 percent of all personal health care expenditures. The average expenditure for personal health services for persons aged 65 and over was $3,140 in 1981, compared with $828 for those under age 65.

Expenditures for health care for the elderly are met from several sources. In 1981, Medicare paid 45.3 percent or $1,422 of the per capita bill for the elderly. Other sources of funding included Medicaid (13.7 percent or $430 of the per capita bill), other public programs (4.9 percent or $154) and private payments, including private health insurance and out-of-pocket expenses (36.1 percent or $1,130).

The financial burden of health care costs for the elderly is very unevenly distributed. Some elderly enjoy good health and rarely use health care services. Others are seriously disabled and require extensive treatment. Medicare and Medicaid assist many of those with serious health problems, but even with these programs many elderly, especially the near poor, can suffer financial hardship from health care bills.

Because the elderly are so different, health expenditures for this group are very skewed. In 1978, 77 percent of the elderly had annual Medicare reimbursements of less than $500, including 40 percent of the elderly who had no Medicare payments. At the other extreme are those elderly who require extensive care and treatment. Nine percent of the elderly accounted for 70 percent of all Medicare payments, with an average payment of over $7,000 in 1978.

The elderly, for the most part, are not a prosperous group. Half of all families with an elderly member have incomes below twice the poverty level. (In 1981, the poverty level for an aged individual was $4,359; twice the poverty level was $8,718.) By contrast 30 percent of persons in families without an aged member have family incomes below twice the poverty level. In 1981, 15.3 percent of the aged had incomes below the poverty level, compared with 14 percent for all persons. For single, white, aged women, 28 percent had incomes below the poverty level, while 64 percent of single, black, aged women had incomes below the poverty level.

Medicare and Medicaid are extremely important to the elderly, disabled, and poor in meeting their health care bills. Federal expenditures for Medicare and Medicaid in FY 1985 will exceed $100 billion, or more than 10 percent of the federal budget. Almost 40 percent of Medicaid expenditures go for the care of 3.5 million elderly people; 70 percent of Medicaid expenditures assist the aged and disabled poor.

Despite these programs, many elderly people already face serious financial burdens in meeting their health care expenses. In 1980, six percent of the elderly had out-of-pocket health care expenses (not counting health insurance premiums) exceeding $1,000, and 16 percent paid more than $500 directly for health care bills.

Out-of-pocket spending by the elderly is expected to continue to grow. The Congressional Budget Office estimates that out-of-pocket costs for Medicare cost-sharing will be $505 per enrollee in 1984. The SMI premium, cost-sharing, and deductible will account for 80 percent of the cost. The SMI premium alone is now $162 per year. In addition, it is estimated that the average beneficiary will pay an additional $550 in 1984 for non-institutional care not covered by Medicare, most notably prescription drugs and dental care. If nursing home care were included, it would add another $650 per person, for a total out-of-pocket cost to the elderly of $1705.

Out-of-pocket medical expenses are a particular burden for those elderly who do not have supplementary coverage to Medicare—either from Medicaid or private health insurance—and for those with serious health problems. My colleagues at Johns Hopkins and I have recently analyzed data from the National Medical Care Expenditure Survey for 1977. We found that the elderly households who are covered only by Medicare spend 11 percent of their household incomes out-of-pocket on health care expenses, compared with 5 percent for those covered by both Medicare and Medicaid, and 8 percent for those with both Medicare and private health insurance. Even those with supplementry coverage can experience quite burdensome medical expenses if they are seriously ill. For the poor and near-poor elderly households with total health care bills exceeding $2500 in 1977, those with Medicare only spent 53 percent of their incomes out-of-pocket on health care expenses, those with both Medicare and Medicaid spent 10 percent, and those with both Medicare and private health insurance spent 30 percent of their incomes out-of-pocket.

The heavy financial burden on lower income elderly is in part a reflection of their inability to afford supplementary private health insurance to fill in the gaps left by Medicare. Overall, 66 percent of the elderly have private health insurance in addition to Medicare. However, this varies widely by income. Of those poor or near poor elderly, 47 percent have private insurance compared with 78 percent of the high-income elderly.

ACCESS TO HEALTH CARE SERVICES

The elderly face fewer problems in obtaining health care services than do those under age 65. Nearly all of the elderly at least have some health insurance coverage through Medicare, while approximately 25 million Americans under age 65 have no health insurance coverage at all.

However, the significant deductible and coinsurance provisions in Medicare deter some of the elderly poor and near poor from obtaining care. In analyzing 1977 National Medical Care Expenditure Survey data we found that elderly who have Medicare only average 4.9 physician visits per year, compared with 6.4 visits per year for those with both Medicare and Medicaid and 5.9 physician visits annually for those elderly with Medicare and private health insurance. We also found marked differences in use of hospital services. Those elderly with Medicare only averaged 2.58 days of hospital care annually per person, compared with 4.05 for those with Medicare and Medicaid, and 3.17 for those with Medicare and private health insurance.

A study by the National Center for Health Services Research found similar differences in use of prescription drugs. Those poor and near poor elderly with both Medicare and Medicaid averaged 15 prescriptions annually, those with Medicare and private health insurance 12 drug prescriptions, and those with Medicare alone 8.7 prescriptions.

Nor can the lower utilization of the Medicare only group be attributed to better health status. We found that thirty-seven percent of the Medicare only poor and near poor elderly rated their health as fair or poor, compared with 29 percent of those with Medicare and private health insurance and 52 percent of those with both Medicare and Medicaid.

POLICY PROPOSALS TO MODIFY MEDICARE

Despite the fact that Medicare covers only 45 percent of the health expenditures of the elderly and leaves some elderly facing serious financial burdens, numerous proposals have been advanced that would increase the financial burden on the elderly.

In the last two years, numerous cuts in Medicare benefits have undoubtedly increased the burdens on the elderly—over and above the most recent figures reported for 1981. Deductibles under Medicare for both hospital and physician services have been increased, resulting in an added cost to Medicare beneficiaries of $1 billion in fiscal year 1983. The premium for Medicare physician services has been raised, increasing the cost to Medicare beneficiaries by another $1 billion in fiscal year 1984 to fiscal year 1986.

The Reagan Administration's FY 1985 budget contains few positive solutions to the problems faced by Medicare. There is no recommended solution to the impending deficit crisis in Medicare. There is no proposed solution to rising health care costs, either for hospital services or for physicians services. There is no relief for those facing heavy financial burdens from health care bills—whether elderly or non-elderly—nor for those simply unable to obtain needed care. There is no new approach to assuring that the frail elderly receive adequate long term care, and can live out their lives with dignity. Instead the Reagan Administration budget would increase costs to the elderly and disabled by at least one billion dollars in FY 1985, and fails to provide any plan to guarantee the long term financial soundness of Medicare.

MEDICARE HOSPITAL COST-SHARING

One proposal missing from this year's budget is the proposal submitted last year to increase hospital cost-sharing by the elderly. Under this proposal the elderly would be required to pay 8 percent of the cost of hospital care from the 2nd through the 15th day, and 5 percent of the cost of hospital care from the 16th through the 60th day of hospital care annually. Current limits on hospital day coverage would be eliminated.

While billed as a benefit to the aged, in fact most aged would face substantially greater health care bills under the proposal. Seven and one-half million sick disabled and elderly patients would face higher payments for hospital care. An elderly couple with a $7,000 income could easily pay more than $3,000 for health care—including over $1,500 in hospital charges and $1,500 in physician charges, prescription drug fees, and charges for other health care services not covered by Medicare. The major burden would be felt most heavily by the 30 percent of the aged without supplementary private health insurance or Medicaid coverage—predominantly near-poor elderly.

The Administration argued that the burden of higher cost-sharing would be offset by improved catastrophic coverage for the elderly. Removal of limits on days of hospital coverage under Medicare, while important, would benefit only 150,000 Medicare beneficiaries, contrasted with the more than 7 million beneficiaries who would face higher charges. Even under the proposal, the elderly would be vulnerable to catastrophic expenses for physician charges, nursing home care, private duty nursing, prescription drugs, long-term mental health care, and other benefits uncovered or only partially covered by Medicare.

MEDICARE PHYSICIAN FEE FREEZE

The Administration again this year requested a "freeze" on physician charges under Medicare, saving $600 million in the FY 1985 budget. This is not really a freeze, however, since physicians would still be permitted to raise fees. Medicare would limit its payment to physicians, leaving the elderly to pick up the difference between the physician's actual charge and the Medicare allowable fee. Thus, well over half of this "savings" would simply be added cost to older persons. Without mandatory assignment of physician services and a set fee schedule, there would be little effective control of physician expenditures or protection for the aged and disabled.

PREMIUMS AND DEDUCTIBLES FOR PHYSICIANS' SERVICES

Another FY 1984 proposal that reappears in the FY 1985 budget request is a hike in the Medicare Part B premium and deductible. Despite the major increases in premiums and deductibles for physicians' services already enacted in the last 2 years, the Administration is proposing to collect $296 million from the elderly and disabled in FY 1985 through higher premiums. Deductibles for physician services would also increase by $40 million in FY 1985. Prior to the 1981 changes, Medicare paid only 54 percent of physician bills of the elderly; the proposed changes threaten to reduce Medicare's share to below half of all elderly physician bills.

VOLUNTARY MEDICARE VOUCHER

The Administration proposes to give Medicare beneficiaries the option of using 95 percent of the cash value of Medicare to purchase private health insurance. There is little evidence that private health insurance would be less costly than Medicare. In fact, the opposite would appear to be true. Private health insurance administrative expenses average 10 to 50 percent of benefit payments, compared with 3 percent for Medicare. Private health insurance plans do not have the hospital and physician payment limits built into Medicare.

Further, it is likely that only very healthy elderly would opt for private health insurance coverage. A voucher for these elderly would exceed their cost to Medicare. Adverse risk selection is a potentially serious problem and could substantially increase the total budgetary cost of assuring health care for the elderly.

POLICY IMPLICATIONS

Proposals that would increase the share of health care bills paid by the elderly under Medicare would further undermine the adequacy of the Medicare program. At present Medicare picks up only 45 percent of the bills of the elderly. In 1981 the elderly paid $1,130 privately for their health care expenses—more than total expenditures of $828 incurred by the non-aged. For the near poor not covered by Medicaid, out-of-pocket expenditures constitute a heavy financial burden. Even moderate income elderly with serious health problems can face thousands of dollars of out-of-pocket health care costs and be forced to choose between basic essentials necessary for survival.

It is clear that the dominant strategy for dealing with these costs must be effective, system-wide health care cost containment placing limits on hospital spending for all patients—not just those covered by Medicare and protecting the elderly from burdensome physicians' fees. Specific steps the Congress could take include:

Limiting the allowable rate of increase in the Medicare hospital prospective payment rates to increases in hospital market basket inflation plus one percentage point for a period through 1987.

Enacting a residual federal all payer hospital prospective payment system for those states that do not voluntarily adopt such systems.

Establishing a prospective physician payment system for Medicare.

Requiring physicians to accept Medicare prospective payment rates for services rendered to hospital patients.

Effective cost containment approaches could do much to reduce the projected deficit in the Medicare trust fund. Strategies that would increase payments by the near poor and those with major health problems should be avoided.

Consideration should be given to a fundamental reform of Medicare that would improve, rather than further reduce its benefits. This would include expanded benefits including long-term care and a moderate ceiling on out-of-pocket expenses for all Medicare benefits. With such improved coverage, many elderly could abandon the purchase of costly Medi-Gap supplementary insurance coverage that is frequently a poor buy with low benefit return per premium dollar expended.

Improved coverage should be coupled with financing reform including merging the hospital insurance (Part A) trust fund and the supplementary medical insurance (Part B) trust fund into a single trust fund. Merger of Part A and Part B into a single trust fund could provide greater stability in funding for Medicare. Current HI payroll tax receipts would go into the fund, along with current general revenues projected as needed to support Part B services. The current Part B premiums could be replaced with a new Medicare premium administered through the income tax system and varying with income. This premium tax would actually reduce the current premium paid by near poor elderly. It could be raised for higher income elderly to provide additional revenues to reduce future projected Medicare deficits. An optional additional premium tax could be assessed for those elderly desiring comprehensive long term care benefit protection.

These ideas require careful consideration and debate as the Congress explores ways to assure the long-term adequacy and fiscal stability of the Medicare program. But it should not be forgotten that Medicare is essential to assuring that many of our nation's most vulnerable citizens can live out their lives with dignity, freed of the worry of financial ruin that major illness can bring. Current fiscal problems should not cause us to lose sight of the major steps that need to be taken to improve, rather than dismantle, the Medicare program.

Chairman **Domenici**. Senator Chiles.

ALL-PAYER SYSTEM STRESSED

Senator **Chiles**. I would like to ask you, Mrs. Ostrander—you have stressed rising health care costs and very dramatically point out your chart which shows those costs. What are some of the first steps that you think we in the Congress should be taking to try to bring about a containment of those costs. What do you see as the major steps?

Mrs. **Ostrander**. Well, as you can see, we have stressed the main situation must be—we must go to an all-payer system.

Now, there was a bill introduced the other day, the Kennedy-Gephardt bill, that does encompass some of the recommendations that AARP has made, and I think those recommendations need to be looked at in the light of the total cost containment. The all-payer system, the capabilities of having the states develop their own programs; what would trigger in, then, Federal coverage, if necessary. It deals with capital expenditures. I think these are the areas that must be addressed.

We have considerable excess bed capacity in this nation, and we cannot continue to build hospitals or make major improvements without looking at what the final cost to the whole health care system is.

OPTIONS FOR INCOME-RELATED PREMIUM

Senator **Chiles**. Dr. Davis, I wonder if you could elaborate a little bit more on what you mentioned in your testimony about how we might consider replacing the current part B medicare premiums with a new premium, administered through the income tax system and varying with income.

Have you estimated the impact on beneficiaries at various income levels? How would such a premium tax reduce the current premium paid by the low-income elderly?

Dr. **Davis**. There are a number of options that one could follow in developing such an income-related premium, and one could rely upon it to raise lesser or greater amounts of revenues. So I think those are things that the Congress needs to consider.

If we look at the overall situation with the medicare trust fund, the Congressional Budget Office in the fall estimated that there would be a $250 billion cumulative deficit in medicare by 1995.

Now, if you extend the current DRG prospective hospital payment at a rate of increase equal to what is called hospital marketbasket plus one, you are talking about a cumulative deficit out to 1995 of about $90 billion. So that my first recommendation would be to rely heavily upon that to reduce the deficit.

If you want to talk about trying to eliminate the rest of the deficit by raising $90 billion and if you wanted to eliminate all of that with an income-related premium, you would have to assess a premium that was 2 percent of income of the elderly. So, on average, that would be about $165 or $170 per elderly person, starting in 1985. That would eliminate out through 1995 the remaining roughly $90 or $100 billion deficit.

Now, if you wanted to use other mechanisms as well, such as physician fee schedules, controls on costs on the physician side, possibly looking at other sources of revenue, like an alcohol and cigarette tax, then one could come down from that. One could be talking about something that was roughly 1 percent of income or even a half a percentage point of income if other options are pursued. But what you should bear in mind is that a premium that is 2 percent of income will generate revenues of about $100 billion over the period out through 1995.

MOVE TO ALL-PAYER RESIDUAL FEDERAL PROGRAM

Senator CHILES. I noted, Dr. Davis, that you were careful to suggest in your testimony that before such a premium approach could even be considered, some form of overall cost control would have to be in place. One of your recommendations is to enact a residual Federal all-payer prospective payment in those States who do not voluntarily adopt such a system.

I know you have long been a supporter of going in that direction, so you might not be a totally unbiased person to ask this question. But if something like an all-payer regulatory system is not done, what are the alternatives?

Dr. DAVIS. I am concerned, Senator, that if we do not enact an all-payer system, we are going to get the rates that hospital receive for elderly patients terribly out of line with the rates that they receive for privately insured patients. And you can get away with that for a year or two, but you are going to create a serious situation over time, if those are not brought in line.

So I think it is important to move toward a prospective payment system that applies to all patients. I think that there are some States that have very good systems in place now. For those States that do not, I think it is important to move to an all-payer residual Federal program.

OUT-OF-POCKET COSTS HAVE RISEN DRAMATICALLY

Senator CHILES. Thank you, ma'am.

Mrs. Ostrander, in your testimony, you note that medicare beneficiaries now bear about 60 percent of the physician service costs under part B, and that out-of-pocket costs have risen dramatically over the last 5 years, and you showed that to us.

I think your statement means that beneficiaries pay a full 60 percent of all physician charges out-of-pocket after all medicare payments are made, and this 60 percent includes not only items not covered by medicare such as drugs, eyeglasses, and dental care—but also the medicare premiums and deductibles. It also includes the difference that a medicare beneficiary must pay to a doctor if his charge is higher than medicare will allow. This difference between what the doctor charges and what medicare pays, when a doctor does not accept assignment, that is pretty large itself, is it not—in the neighborhood of 20 to 25 percent?

Mrs. **Ostrander**. It is in some instances more. Under the copay, it is 20 percent, but many of the doctors bill above that figure, and I think that has to be recognized, that that is also being made up by the elderly in out-of-pocket costs. So your statement was correct—it includes beyond just the balance there.

Senator **Chiles**. Can you tell us how beneficiaries react to that kind of a charge?

Mrs. **Ostrander**. Well, you have to understand that the elderly have a fear of not being able to have health care. Many of the elderly still have not come to the point of challenging the medical system and to questioning why those fees have been so high. So, for fear of losing all medical care, they will do without other areas of necessity, to meet those bills. And in the long run, they may not go for medical care when they need it because it is imposing an additional financial burden.

So it has a double-pronged effect there that must be watched.

MANDATORY ASSIGNMENT SHOULD BE LOOKED AT CAREFULLY

Senator **Chiles**. I also note that you pointed out that the costs for the physician services part of medicare are rising faster than on the hospital side, and you call for some controls on that. You know that we have been considering a freeze on medicare payments to physicians. You know also that there has been some debate about reforming the assignment system in order to protect beneficiaries from the higher out-of-pocket costs.

Does AARP support legislation to enact some form of mandatory assignment?

Mrs. **Ostrander**. You have to look at that very carefully, because everything that has been considered so far really has no teeth in it. I think before we go to that full system, it would behoove us to look at what was proposed about the inhospital freeze, which I think then ties to being able to serve on a particular hospital staff, could tie that down, and once we looked at that, we could see what the experience record would show.

The other route would be to go to the inhospital on a DRG basis, which I believe Karen Davis has also talked about.

Senator **Chiles**. You have heard some of the discussion from Dr. Davis about combining the hospital and physician portions of medicare into one program and setting up a new premium structure based on the enrollee income. I think that was also presented to you at your last meeting in Washington.

Do you have any comments on that idea for us?

Mrs. **Ostrander**. We feel very strongly that anything that goes into the income on that basis is doing nothing more than cost shifting, which we have indicated is one of the results of just the DRG's for medicare is. And we think that this would take it and shift from one segment of the beneficiary population to another.

So at this point, we would have some reservations.

ACTION SHOULD BE TAKEN NOW ON MEDICARE PROGRAM

Senator **CHILES**. You have made some strong statements about taking early action to save the medicare program. Given the budget that we have from the Department this year, AARP seems even more willing to seek a solution than the administration.

You heard the projections on the trust fund. Maybe we have shoved the depletion date back 1 year. Maybe we are now at 1990. How long can Congress wait before it takes some kind of comprehensive action?

Mrs. **OSTRANDER**. Our concern is that we must look at it now. We should not be putting it off, because by putting it off, the closer it comes to the real crisis in the medicare system, we will make decisions that perhaps some of us find difficult to live with. And I think it is important, since we are concerned about the total system. You cannot just save medicare alone. That is saving nothing. So if we do not start on that road, we are going to continue to see the deficit problem escalate.

Senator **CHILES**. Thank you.

Chairman **DOMENICI**. Let me ask you, Dr. Davis, this chart [1] here shows the nonregulated states, 16.3, and the regulated, 10.8. I do not really understand how there could be such a dramatic difference unless there is something like significant restraint of those things within a hospital that cost the most, because that is dramatic.

So I would assume—and you tell me if I am wrong—that this process has forced a reduction in the wages paid and operation and maintenance of a hospital—wages paid to those who run a hospital. Is it safe to assume that if you went to one of those States, you would find that those who work in the hospital are paid less than those who work in the other hospital, and if so, how is that achieved? That seems to be rising in States at a completely different level, and on its own path, as compared with the problem we seem to want to address, and should, on doctors charging maybe more than they should, or too many tests, and the like. But if you look at the charts, and wages paid to those who work in hospitals, it is a huge amount. I understand 60 to 65 percent of the cost of running a hospital is the wages paid—for which I am not complaining. I just wonder how you can effect that in a so-called regulated State and not in a nonregulated State—if they are.

Do you happen to know?

COSTS DOUBLED IN HOSPITALS WITHOUT ALL-PAYER

Dr. **DAVIS**. Those figures are accurate, and that is a 1-year difference displayed there. But it has held up over a long period of time. We put together some numbers for the period going back to 1975 through 1980, which is a little bit before this data here. Over that period, for the States without all-payer hospital cost-containment systems, hospital costs doubled that is, went up 100 percent while in the States that had these mandatory programs, costs only went up 60 percent.

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[1] See p. 207.

So what you see is a 5- or 6-percentage point difference in 1 year, but that compounds year after year. As a result, you get a tremendous difference in costs between those two sets of States

Now, in terms of what does it reflect, we are not clear right now about what explains the difference in the regulated States as against the nonregulated States. There does not seem to be a difference in the quality of care. If you go to a State like New York, Massachusetts, or Maryland, for example, there is no documented difference in the quality of care that is provided. Nor do I believe there is any evidence that the wage rates of hospital employees are substandard relative to other workers in similar occupations in those States. It is kind of hard to compare them just at a level basis with the nonregulated States, since some of these are higher wage States to start with.

You point out rightly that 60 percent or so is for payroll costs, but that is not just for wage rate; it is also the number of employees. One of the things that has happened in these States with regulated programs is they have had less of an incentive to keep expanding employment the way that employment has expanded in hospitals in other States. But it is also this intensity factor, the number of tests, and the expensiveness of the tests that are ordered, that is also being affected here. So I would not put the major emphasis upon depression of wages. I do not believe there is any evidence that the wages of hospitals in those States are substandard relative to comparable workers in other industries.

MALPRACTICE SUITS SHOW NO INCREASE

Chairman **Domenici**. If there is an expression of the kinds of tests given, the number of tests, the cost of tests—which is a growing part of the cost of the hospital, as you know—is there something about the regulated States that immunizes the doctor from liability, as compared with the nonregulated States, in terms of malpractice, for failure to give those tests and the like?

Dr. **Davis**. There is no provision about that, but I do not think there is any evidence that the malpractice suits are up in those States at all. In fact, for some of these tests, you can be charged for malpractice for doing them, if there is no benefit to the patients. And I think what we have seen in the required States is that there really is a lot of room to improve productivity, to improve efficiency, to cut out areas of waste. You really can have these marked differences in rates of change and have them sustained over a long period of time, without there being any evidence of an adverse effect on quality of care, cr increased malpractice, or any of those dimensions of care.

LOWER RATE OF INCREASE CAN BE ACHIEVED

Chairman **Domenici**. So you are telling us, Dr. Davis, basically, that kind of level of cost brings costs down to acceptable level, and is really legitimate—there are no gimmicks to this, and it is absolutely certain. We could get a 3- to 5-percent reduction by going to that system and not suffer any quality of care changes?

Dr. DAVIS. That is right, Mr. Chairman. I must confess to having been a skeptic back in 1977 that that would really take place. Since a lot of these programs came in in the early seventies, the data in 1975–76 did not show any difference. I started from a point of not being convinced that they would have this kind of effect, and then saw the strong differences, starting in 1977, where every year, you would get this 3- to 4-percentage point differential. It has been sustained up through these very recent data that have been released.

So I think there is very clear evidence that you can achieve a much lower rate of increase.

I might also just quarrel a little bit with what Secretary Heckler had to say about the progress that is going on in this industry. She said the competition and the new changes that have been made are really bringing costs down to an acceptable level. I think first of all, you do not see that if you look at the medicare budget projections. You are still seeing 16 percent rates of increase in medicare expenditures both under part A and part B, projected for the next year.

But also, you cannot double-count what is going on in the economy and the health industry. So if we have seen the CPI come down from a 12-percent rate of increase in 1980 to a 4-percent rate of increase in 1984—largely, I think, because of the energy, oil price stabilization. You have had a drop in the overall CPI of about 8 percentage points over that period. If you look at the hospital industry, hospital costs are going up 16 percent in 1980, 18 percent in 1981; they are now going up in the 1982 data at 16 percent overall, and that is kind of the average of these States you see here. And apparently, there are some early data for the first 9 months of 1983 that show that it may get down to around 11 or 12 percent in 1983.

So there is a drop from, say, 18 to 11, if you put the best possible light on that, or about a 6-percentage-point drop. But what you are seeing is that the improvement in the health industry is not even as good as the improvement in the economy as a whole. So in fact, if you look at it in real terms, relative to inflation and the economy as a whole, the health industry is getting worse, not better. So I do not think we should be too encouraged by an 11- or 12-percent rate of increase in hospital costs, when the CPI is going up 4 percent. We have still got a lot of problem there that needs to be addressed, and the same is true on the physician side.

JUMPS HAVE OCCURRED DURING THIRD-PARTY GROWTH

Chairman DOMENICI. I remember seeing the 20-year inflation chart, and each time that health care costs—in particular, hospital care—took this big jump over other inflationary levels, it was the period of time surrounding the adoption of one of the major U.S. Government programs, when medicare came along, we waited a little while and saw this huge jump; medicaid, you saw this big jump. Is there a real relationship between lack of control of prices and costs and our national programs, as contrasted with the rest of the delivery system?

Dr. Davis. Well, I think it is fair to say that the growth of third-party coverage has been attributed to this inflation, certainly, the case that costs jumped up quite a bit when medicare and medicaid came in in the midsixties. But what is less remembered is that they were going up at twice the rate of the CPI even before medicare and medicaid came in, since that was the period of very rapid growth of private health insurance.

So the jumps have occurred during periods of rapid third-party growth. But it is not that, simply. You look into the early seventies, and there was some moderation in the 1971 to 1974 periods, when the economic stabilization program or the Nixon administration wage price freeze and controls were on. They did moderate during that period, and then they just took off, went up even 20 percent in that 1975–76 period, immediately after the release of those controls; costs were going up very rapidly in 1977. And then, when the Congress was considering hospital cost containment legislation, the hospital industry came forth with something called a voluntary effort, and held it down to about 13 percent in 1978 and 1979 That legislation was defeated in 1979, and it took off again—16 or 18 percent. So it seems to be in recent periods not so much the growth in medicare and medicaid. It is the threat of somebody doing something about it that seems to affect what the trends are.

HEALTH DELIVERY REFORM MUST BE CONSIDERED

Chairman Domenici. Well, I keep hearing that we ought to do these things and get these spiralling costs under control, and I could not agree more. It seems to me that basically, those who are telling us how to do it are telling us to change processes and procedures.

As a matter of fact, aren't we going to have to change the delivery system? I mean, I just do not think you can squeeze that much out of a system without the system ending up to some extent different than it is when you start.

I refer to it as some kind of a rationing of the health care, either by regulation or by marketplace concepts. But you aren't going to have doctors doing everything they are doing, making the same amounts of money they are making, and the same growth in the numbers of them, and the same growth in the number of exotic acts of surgery occurring, and the same everything, and still have it come down to 2 points over CPI instead of 2½ times CPI, are you?

Dr. Davis. I think you raise a good point there about the long term. I think we focus a lot on what we do right away to do something about this problem. But I think you are right, in the long term, there is going to have to be some health delivery reform, and I think in particular, there is going to have to be a lot more emphasis on how you keep people out of hospitals. The whole new prospective payment system really does not address that. In fact, it even gives the hospital industry an incentive to hospitalize people at least for short periods of time and then get them out.

I think in the long term, we are going to have to look toward capitation systems of payment, where we really have an incentive to provide care on an ambulatory basis. We need lot more emphasis upon alternatives to hospitalization if we are going to do something about costs in the long term.

Chairman DOMENICI. Mrs. Ostrander, did we strike on anything you would like to comment on?

Mrs. OSTRANDER. No. I think Karen has indicated, and we have said we have got to look at other systems, we have got to consider HMO's, we have got to consider where outpatient surgery is feasible to be done.

I think what we presented today was based on the problem existing before you right now, but I do feel very strongly that we must restructure our whole health care system. It is not a short-term project. It is a long-term project. But unless we begin to get a handle on the costs right now, we will never be able to move off of the first step.

Chairman DOMENICI. Thank you both very much.

We are most appreciative of your taking the time and being so patient with us.

We stand in recess.

[Whereupon, at 12:30 p.m., the committee was adjourned.]

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AMERICAN LUNG ASSOCIATION
The Christmas Seal People®

FY 85 Budget

Statement of the

American Lung Association

to the

Budget Committee

United States Senate

March 9, 1984

National Headquarters, 1740 Broadway, New York, N.Y. 10019 • James A. Swomley, Managing Director

Senate Budget Committee Statement

March 9, 1984

The American Lung Association appreciates this opportunity to comment on the health aspects of the fiscal 1985 federal budget. Our organization is the country's oldest voluntary health association. From the beginning, our volunteer leaders together with the health and medical professionals of the American Thoracic Society, ALA's medical section, have made the prevention of lung disease our primary focus--and this will be the emphasis of our statement to this committee.

In these days of budgetary crisis, the concept of disease prevention takes on an even greater importance. It is essential to look beyond the immediate temptation to cut health funding indiscrimately. The good health of the citizens is a precious heritage that undergirds the state of this nation and must be maintained. Domestic program cut-backs, especially discretionary health programs, will not balance the budget or substantially reduce the deficit. Cut-backs in discretionary health programs will not resolve the problems of increasing entitlements. Cut-backs in Medicaid and Medicare do not improve the health of the nation and, in fact, are counter-productive. Economic growth and a proper tax structure are more apt to reduce the deficit without putting the burden on the sick, the elderly and the poor, especially mothers and young children.

The federal government as well as the private sector have slowly come to realize that the best way to contain health care cost is to prevent people from getting sick and to prevent acute episodes of illness from developing into chronic conditions. These truths are self evident but the commitment to them in the federal budget has been erratic rather than constant.

Congress is to be commended for its strong support in the past two years to restoring some semblance of real growth to biomedical research which seeks out the most basic knowledge of disease. At the same time, though, public health programs to promote healthy lifestyles have remained endangered species. The question is whether Congress is willing to make a substantial and long-term commitment to a comprehensive prevention program that will reverse current disease trends in the decades to come.

A review of the lung disease saga is a classical example of both the problem and the opportunity. Respiratory diseases constitute a devastating and growing public health problem in the United States. (attachment 1) These diseases which include lung cancer and emphysema now rank third among the leading causes of death and sixth among conditions responsible for premature retirement for disability. Respiratory complaints are the reasons for 12% of hospital admissions and for 20% of the visits to doctors' offices. COPD -- as Chronic Obstructive Pulmonary Diseases such as emphysema, bronchitis and asthma are called--is among the most rapidly increasing of the 10 leading causes of death. COPD had a 60% rate of increase between 1969 and 1979.

These respiratory disease trend-lines become particularly sobering when viewed in the context of this country's aging population. The per centage of the U.S population 65 and over has now topped 11% and is projected by the Congressional Quarterly publication "The Aging in America" to be headed toward more than 15% in the next 10 years. (see attachment 2) Within that phenomenon is another one - the "aging" of our aging population. The number of persons in the above 80 category will increase in the next 20 years and this group will comprise an increasingly large proportion of all persons 65 and over.

The social and fiscal implications of the "Aging of America" are profound. For those concerned with lung disease, it means the situation is going to get worse before there is hope of improvement. Yet the potential for accelerating our inroads on this problem as well as other health challenges is at hand if we but seize it:

- Basic new knowledge has been gained over the past decade thanks to the increasing substantial investment in federal lung research and training. Opportunities exist for major new COPD initiatives to be undertaken to extend and apply this knowledge in a variety of community and occupational settings--if major additional funds were available to the NIH.
- Smoking has long been identified as the primary cause of emphysema. Just think what inroads could be made in this disease if the very modest educational programs of the federal government to discourage smoking were given anywhere the level of support they deserve.
- Tuberculosis is a disease where there has been slow progress in controlling it but with modest additional federal resources targeted to select problem areas to provide the community outreach workers to help break the chain of infection there could be expedited progress that would be highly cost-effective. Ultimately, this historic infectious disease could be elininated in this country.

There are similar examples in every other disease area. Yet the President's budget calls for largely status quo in discretionary health programs overall -- a combination of small increases for biomedical research that are no increases where inflation is taken into account and cuts in a number of public health programs.

A similar budgetary malaise is being proposed by the President for programs dealing with prevention of occupational and environmental health hazards.

The population of the country is theoretically at risk of adverse respiratory health consequences from exposure to levels of ambient air pollution above the health standards. Subgroups of the population have been identified which are known to be particularly sensitive to such exposure (patients with COPD including asthma -- 15,600,000; angina pectoris and/or history of heart attack -- 4,240,000; children under 14 -- 50,000; the elderly in general due to declining state of immune system). Yet the research resources proposed for these areas do not reflect the level required despite an acute need for more precise data. Further, as more reliance is being placed on state and local jurisdictions to control air pollution, the federal resources proposed to be made available are just not adequate.

The programs of the federal government give strength and leadership to our entire system of health care. In the absence of strong federal commitment and support, neither state or local governments nor the private sector are financially capable of continuing these vital programs. Such programs are essential if we are ever to address the nation's health care problem. Therefore, the American Lung Association recommends that the federal budget increase discretionary health funding by at least 16% over the next 3 years. Such funding levels would serve to restore these programs to the level of national priority they deserve, would allow for the first time in many years real growth in basic research and would encourage development of critically needed manpower.

* * *

Another major area of budgetary concern to the ALA is the matter of nonprofit mail rates. The ALA has always depended upon the mails to raise its support and inform the community about lung disease. Third-class nonprofit bulk mail rates were escalated precipitously three years ago when the Postal Revenue Foregone budget item was reduced in contradiction to the 16-year phasing schedule adopted by Congress in 1970. Since then, Congress has restored a measure of equity and stability to nonpofit rates and the entire nonprofit community is greatful. Once more the President has recommended a severe cut in the Postal Revenue Foregone item which would result in a 50% increase in these rates. We urge you to recommend a budget target of $550 million for Revenue Foregone which would restore nonprofits to the step on the phasing schedule that Congress intended.

ATTACHMENT 1

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AMERICAN LUNG ASSOCIATION
The Christmas Seal People

March 1984

ISSUE BRIEF: MAGNITUDE OF LUNG DISEASE

Overview

Respiratory diseases are a devastating health problem in the United States, ranking third among the leading causes of death and sixth among conditions responsible for premature retirement for disability. Chronic respiratory diseases are the most rapidly increasing of the 10 leading causes of death. That acceleration in mortality has occured during a time when the mortality rate from all causes of death has significantly declined: for example, cardiovascular disease mortality has decresaed 24 percent during the period 1968-1978.

Although the effects on mortality are significant, chronic respiratory diseases tend to have an even greater effect on morbidity and disability. Chronic respiratory disease is the most frequent reason that people seek medical attention, accounting for more than 20 percent of all physicians contacts and 12 percent of all short-term hospital stays. Further, there are more lost workdays from respiratory disorders (31.3 million person-days annually) than from any other category of illness. The direct and indirect costs are a staggering $45 billion annually.

Respiratory diseases constitute an array of conditions of the lungs and the upper respiratory system. Of particular importance are the chronic obstructive pulmonary diseases, asthma, lung cancer, the interstitial pulmonary diseases, tuberculosis and other infections, cystic fibrosis, other pulmonary disorders of special importance in the pediatric population, and pulmonary vascular disease.

Chronic Obstructive Pulmonary Disease (COPD)

Between 1969 and 1978, COPD had the most rapid rate of increase (60 percent) among major causes of death and accounted for 45,000 deaths in 1978. Although COPD death rates have accelerated rapidly in all sex/race categories, the increase in white females is of special concern. Between 1968 and 1978, age-adjusted COPD mortality had increased threefold.

Prevalence estimates of COPD tend to underestimate the magnitude of reported conditions of emphysema, chronic bronchitis, and asthma. On the basis of a probability sampling of U.S. households, it is estimated that 16 million Americans are affected by one or more forms of COPD. The prevalence of asthma has remained relatively constant but is believed to affect 5 percent of the population. However, during the past 10 years, the prevalence of emphysema increased 58 percent, whereas chronic bronchitis increased 12 percent.

In 1980, there were 998,000 hospital discharges for COPD and allied conditions. The economic effect of COPD is extensive. Costs related to hospitalization and continuing care of patients with COPD are in the neighborhood of $3.8 billion annually, whereas treatment costs approximately $1.0 billion.

(Over)

Lung Cancer

In 1982, 110,000 American deaths will be certified as caused by lung cancer, and more than 120,000 cases of lung cancer will be newly diagnosed.

The mortality rate of lung cancer has undergone a precipitous (280 percent) increase over the past 30 years. Projections of lung cancer mortality over the next decade indicate a 28 percent increase in males and an 84 percent increase in females, based on applying the annual rates of increase to lung cancer between 1970 and 1975 to the period 1980-1990. Thus, projected rate of increase of lung cancer in women is of special significance. It has been predicted that lung cancer will supersede breast cancer as a cause of death in women during the next decade.

Pediatric Lung Diseases

Asthma, cystic fibrosis, respiratory distress syndrome, bronchiolitis, and other respiratory infections constitute a significant source of morbidity and disability in the pediatric population.

- Asthma affects 2 million children under the age of 17 and is a major source of school absenteeism and unplanned medical interventions. More than 3.6 million physician visits are made annually for medical consultations related to asthma and its complications.

- Neonatal Respiratory Distress Syndrome (NRDS) is the most significant cause of neonatal mortality in the United States. NRDS accounts for 20 percent of total mortality experienced in the first year of life. The average cost for treatment and continuing care of the infant with NRDS is conservatively estimated to be $5,000. Each year 50,000 infants are affected by NRDS, leading to direct costs in the neighborhood of $250 million. As greater numbers of infants with NRDS are surviving, the prevalence of the disabling sequelae from NRDS is placing an increasing burden on the medical systems that provide continuing care and rehabilitation for those children.

- Bronchiolitis is an obstructive respiratory disease of infancy and childhood, usually caused by infection with respiratory syncytial virus. Although generally of short duration, the inflamation of the bronchioles may affect subsequent lung development and have adverse consequences later in life. In 1980, 3,075,000 children under the age of 6 years were affected by acute respiratory illnesses, including bronchoiolitis and pneumonia.

Tuberculosis

In 1980, 28,000 newly diagnosed cases of tuberculosis (TB) were reported in America. During the past 25 years, the number of reported TB cases has declined by approximately 4 percent a year. However, the incidence of TB in 1980 represented a 0.6 percent increase over that reported in 1979, such a consecutive increase in the TB case rate has occurred only twice during the past 25 years. A major contributing factor for the increase in incidence in 1980 was the large number of TB cases diagnosed in the Indochinese refugee population migrating to the United States during 1979 and 1980.

In 1981 the rate declined 6 percent to 27,373 cases and in 1982 a furhter decline of 7 percent to 25,522 was noted. This decrease represents the anticipated decline with adequately functioning TB control programs.

TB in children under 15 continues to present a public health problem. The incidence rate in children has shown no decline in the period 1976-82.

ATTACHMENT 2

Table 1-1 The Total Aging Population in the United States

Year	Number of Persons Age 65 and Over (Thousands)	Percent of Total Population [a]	Percent of Increase from Preceding Decade
1900	3,099	4.1	—
1910	3,986	4.3	28.6
1920	4,929	4.7	23.7
1930	6,705	5.4	36.0
1940	9,031	6.8	34.7
1950	12,397	8.2	37.3
1960	16,675	9.2	34.5
1970	20,087	9.8	20.4
1980	25,544	11.3	27.1
Projections:			
1990	29,824	12.2	16.7
2000	31,822	12.2	6.7
2010	34,837	12.7	9.5
2020	45,102	15.5	29.5

[a] Projections are from Series II of the *Current Population Reports*, which assumes that women average 2.1 births at the end of the child-bearing years.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-23, No. 59, "Demographic Aspects of Aging and the Older Population in the United States" (May 1976); Series P-25, No. 704, "Projections on the Population of the United States 1977 to 2050" (July 1977). The 1980 figures are from the *Statistical Abstract of the United States, 1981*.

Table 1-2 U.S. Population Age 65 and Over, 1980

State	Total (Thousands)	Age 65 and Over (Thousands)	Age 65 and Over as a Percent of State Total
Florida	9,740	1,685	17.3
Arkansas	2,286	312	13.6
Rhode Island	947	127	13.4
Iowa	2,913	387	13.3
Missouri	4,917	648	13.2
South Dakota	690	91	13.2
Nebraska	1,570	206	13.1
Kansas	2,363	306	12.9
Pennsylvania	11,867	1,531	12.9
Massachusetts	5,737	727	12.7
Maine	1,125	141	12.5
Oklahoma	3,025	376	12.4
New York	17,557	2,161	12.3
North Dakota	653	80	12.3
West Virginia	1,950	238	12.2
Wisconsin	4,705	564	12.0
Minnesota	4,077	480	11.8
Connecticut	3,108	365	11.7
New Jersey	7,364	860	11.7
Mississippi	2,521	289	11.5
Oregon	2,633	303	11.5
Vermont	511	58	11.4
Alabama	3,890	440	11.3
Arizona	2,718	307	11.3
Tennessee	4,591	518	11.3
Kentucky	3,661	410	11.2
New Hampshire	921	93	11.2

Table 1-2 (Cont.)

State	Total (Thousands)	Age 65 and Over (Thousands)	Age 65 and Over as a Percent of State Total
Illinois	11,418	1,261	11.0
Montana	787	85	10.8
Ohio	10,797	1,169	10.8
Indiana	5,490	585	10.7
Washington	4,130	431	10.4
California	23,669	2,415	10.2
North Carolina	5,874	602	10.2
Idaho	944	94	10.0
Delaware	595	59	9.9
Michigan	9,258	912	9.9
Louisiana	4,204	404	9.6
Texas	14,228	1,371	9.6
Georgia	5,464	517	9.5
Maryland	4,216	396	9.4
Virginia	5,346	505	9.4
South Carolina	3,119	287	9.2
New Mexico	1,300	116	8.9
Colorado	2,889	247	8.5
Nevada	799	66	8.3
Hawaii	965	76	7.9
Wyoming	471	37	7.9
Utah	1,461	109	7.5
Alaska	400	12	3.0

SOURCE: U.S. Department of Health and Human Services, Office of Human Development Services, *The Elderly Population: Estimates by County, 1980.*

FAIRNESS AND EQUITY IN ECONOMIC AND BUDGET POLICY

TUESDAY, FEBRUARY 28, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 9:38 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Kassebaum, Symms, Kasten, Chiles, Biden, Sasser, Metzenbaum, and Exon.

Staff present: Stephen Bell, staff director; Jan Lilja, senior analyst for human resources group; and Michael Carozza, analyst for income security.

For the minority: Richard N. Brandon, staff director; and Alan Cohen, senior economist for social security and veterans.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. Let's get started.

We have five witnesses—Dr. Robert Rubin, Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services; Dr. Janet L. Norwood, Commissioner, Bureau of Labor Statistics, U.S. Department of Labor; Dr. Blanche Bernstein, director of the Social Policy Research Institute at the New School for Social Research in New York City; Dr. John Palmer, codirector of the Urban Institute project "Changing Domestic Priorities," and Dr. Frank Levy, professor of public policy at the University of Maryland.

DIRECTION OF ECONOMIC POLICY CHANGED BY CONGRESS

Let me begin by welcoming the witnesses to the committee. It is obvious that today we are going to make an effort, as best we can, to assess the effects of recent budget and legislative actions on the economy and on key social and demographic groups. This is an important hearing. The Congress has changed the direction of economic policy in this country. Uncontrolled inflation, deteriorating economic growth, and unemployment during the late seventies were responsible in a major way for a mandate which brought on rather significant change.

We have made some significant progress. The rate of inflation has dropped dramatically. All types of interest rates are sharply lower. We are adding about 200,000 to 300,000 jobs each month. The unemployment rate has declined more sharply during the past year than during the first year of any previous post-war recovery. We have had seven of those instances, I think.

Despite all of the doomsayers, it now looks as if growth in the current quarter could top 6 percent, and overall, the economy could grow close to 6 percent this year. If that happens, based upon what has occurred in the last year, that could bring unemployment down below the 7-percent level—I do not think any of us anticipated that in any of our economic forecast for the period that I am discussing.

This was not without cost; I am aware of that. There has been a substantial cost in terms of lost output and employment. Not only did unskilled workers lose jobs, but also many highly skilled, well-paid workers in particularly hard-hit manufacturing, mining and construction industries were very adversely affected.

SIGNIFICANT POLICY DECISIONS SHOULD BE MADE

I am hopeful this period is behind us, but obviously, we have some very significant policy decisions to make if we are going to keep it behind us, and look forward to some sustained economic growth.

We have to work to bring the budget deficits down. I believe that our current efforts have a chance of accomplishing that. There are some who do not; I respect their judgment, but I think we must try.

There are those who say the progress that has been achieved was at too great a cost to those who are unfortunate and poor. I would like to move from the economy to a few of those programs. I asked staff to do some work on those and put them on some charts that might lend themselves to the discussion that the five witnesses want to give to this committee.

During the seventies, there was a rapid growth in programs such as AFDC, food stamps, medicaid, and means-tested programs. It obviously was well intentioned; we thought it was well targeted. These major means-tested programs increased by about 223 percent in real dollars over the seventies.

There was also a need to improve the administration of these means-tested programs. We now know that erroneous benefit payments in medicaid, food stamps, and AFDC were about $3.5 billion in 1981. That same year, the States failed to collect about $1 billion in child support payments for AFDC recipients.

I think it is very important that we understand that our scarce benefits did not always go to the most needy. In 1981, we paid about $20 billion in means-tested benefits to households whose incomes including benefits put them above 150 percent of poverty. About one-fourth of the AFDC benefits, one-fourth of food stamps, and half of public housing went to those at the 150-percent level or higher. I am only stating facts; perhaps there are those who think that is good policy.

The Congress joined with the administration to implement reforms to slow the growth. There is a controversy that these reforms may have hurt the poor and were unfair to the needy. That warrants attention, and perhaps some of the testimony today will address that issue.

RECENT REFORMS ON MEANS-TESTED PROGRAMS WOULD SLOW THEIR GROWTH

The facts as I can put them down show that we have been effective in slowing the growth of programs and targeting the benefits. Spending for means-tested programs—let me just quickly go over that—increased from 1970 to 1983, with a $7 billion increase between 1981 and 1983. After adjusting for inflation, these programs experienced steady spending from 1981 to 1983. The success is evident in program growth rates. Between 1970 and 1975, it grew at an annual rate of 20 percent; during the second half of the seventies, it grew at 13; with recent reforms on means-tested, it is now growing at about 6 percent.

Real growth rates exhibit a similar pattern of high growth in the early seventies, slower growth in the seventies, and a smaller amount in the last 3 years.

For the neediest individuals, those in households of $10,000 or less, the average benefits per household are projected to increase from $6,250 to $7,300 in 1985. These reforms have directed funds toward the neediest and away from relatively better off.

Let me take a look at that. There were sizable increases from 1980 to 1982 in the number of recipients with income below 130 percent. If we look at that it is an increase of 9.6, added to the very large base of 11 million. There were comparable precentage decreases number of recipients below in the 130 and 185 percent of poverty, applied to a much smaller base. I do not know, again, what this committee would say about that being good or not, or efficient policy, or some kind of policy that could be changed, but I think those are the numbers in those particular areas that we are looking at as for as medicaid, housing, food stamps.

I would also say SSI is down even in the less than 130-percent category, but I would say that I asked why, and it seemed that nothing we did caused that, but rather, changes in the disability administrative processes had an impact on that, and Congress is attempting to address that.

On the tax side, all taxpayers received deductions roughly in proportion to taxes they paid in 1980. The largest tax cut in aggregate dollar terms went to the $20,000 to $40,000 middle-income group. This group contains the most households and earns most of the Nation's income. As a percentage of the total personal income bill for the country as a whole, the less than $10,000 household income group would have paid almost 2.5 percent of all individual income taxes in 1982 if the pre-ERTA law had remained in effect.

In 1985, after all the tax legislation of 1981 and 1982, this low-income group would pay about 2.1 percent. This is a 12.5-percent decrease in the aggregate burden on this taxpayer group. The aggregate burden on households over $80,000 will have increased by 10.5 percent.

The legislation in programs that help low-income people formed part of a larger agenda to improve the quality of life by, among other things, slowing the rate of inflation—the poor benefit greatly from that, and I think that can be proven.

I will put the rest of my statement in the record, and if the witnesses want to look at any of the other information, we would be pleased to make it available.

[The prepared statement of Chairman Domenici follows:]

PREPARED STATEMENT OF CHAIRMAN DOMENICI

LET ME BEGIN BY WELCOMING OUR WITNESSES TO THE COMMITTEE TODAY. THE PURPOSE OF THIS HEARING IS TO ASSESS THE EFFECTS OF RECENT BUDGET AND LEGISLATIVE ACTIONS ON THE ECONOMY AND ON KEY SOCIAL AND DEMOGRAPHIC GROUPS IN OUR COUNTRY.

THIS IS AN IMPORTANT HEARING. DURING THE PAST THREE YEARS, THIS CONGRESS HAS CHANGED THE DIRECTION OF ECONOMIC POLICY IN THE COUNTRY. INDEED, UNCONTROLLED INFLATION AND DETERIORATING ECONOMIC GROWTH AND EMPLOYMENT DURING THE LATE 1970S WERE RESPONSIBLE IN A MAJOR WAY FOR THE BROAD POLITICAL MANDATE FOR THIS CHANGE.

WE HAVE MADE IMPORTANT PROGRESS. THE RATE OF INFLATION HAS DROPPED DRAMATICALLY. ALL TYPES OF INTEREST RATES ARE SHARPLY LOWER. WE ARE ADDING 200,000 TO 300,000 JOBS EACH MONTH. IN FACT, THE UNEMPLOYMENT RATE HAS DECLINED MORE SHARPLY DURING THE PAST YEAR THAN DURING THE FIRST YEAR OF ANY PREVIOUS POST-WAR RECOVERY. DESPITE ALL OF THE DOOMSAYERS, IT NOW LOOKS AS IF GROWTH IN THE CURRENT QUARTER COULD TOP SIX PERCENT AND, OVERALL, THE ECONOMY COULD GROW CLOSE TO 6 PERCENT THIS YEAR. THAT'S ENOUGH TO BRING THE UNEMPLOYMENT RATE DOWN BELOW 7 PERCENT.

UNFORTUNATELY, THIS SUCCESS WAS NOT WITHOUT COST -- A SUBSTANTIAL COST IN TERMS OF LOST OUTPUT AND EMPLOYMENT. NOT ONLY DID UNSKILLED WORKERS LOSE JOBS, BUT ALSO FOR MANY HIGHLY SKILLED, WELL PAID WORKERS IN PARTICULARY HARD HIT MANUFACTURING, MINING AND CONSTRUCTION INDUSTRIES.

BUT THIS PERIOD OF RECESSION IS NOW WELL BEHIND US. WE CAN LOOK FORWARD TO A SUSTAINED PERIOD OF ECONOMIC GROWTH, WITH LOW INFLATION AND RAPIDLY EXPANDING ECONOMIC OPPORTUNITIES FOR ALL OF THE PEOPLE IN OUR COUNTRY. CERTAINLY, WE HAVE TO CONTINUE TO WORK TO BRING THE BUDGET DEFICITS DOWN. BUT I BELIEVE THAT THE CURRENT EFFORTS OF THE ADMINISTRATION AND THE CONGRESS WILL BE FAR MORE SUCCESSFUL THAN MANY PEOPLE NOW EXPECT.

HOWEVER, THERE ARE THOSE WHO SAY THAT THIS ECONOMIC PROGRESS WAS ACHIEVED AT A GREAT COST TO THE POOR OF THIS COUNTRY. I WANT TO MOVE FROM THE ECONOMY TO THE PROGRAMS THAT PROVIDE DIRECT ASSISTANCE TO LOW-INCOME AMERICANS--AFDC, FOOD STAMPS, MEDICAID, AND THE OTHER MEANS-TESTED PROGRAMS. DURING THE 1970S THERE WAS RAPID GROWTH IN THESE PROGRAMS. IT WAS WELL-INTENTIONED SPENDING. SPENDING FOR MAJOR MEANS-TESTED PROGRAMS INCREASED BY 228 PERCENT IN REAL DOLLARS OVER THE 1970S.

THERE WAS ALSO A NEED TO IMPROVE THE ADMINISTRATION OF MEANS-TESTED PROGRAMS. ERRONEOUS BENEFIT PAYMENTS IN FOOD STAMPS, MEDICAID AND AFDC TOTALLED $3.5 BILLION IN FY 1981. IN

1981 STATES FAILED TO COLLECT OVER $1 BILLION IN CHILD SUPPORT PAYMENTS OWED TO AFDC CHILDREN.

MOST IMPORTANTLY, OUR SCARCE BENEFITS DID NOT ALWAYS GO TO THE MOST NEEDY. IN 1981 WE PAID ABOUT $20 BILLION IN MEANS-TESTED BENEFITS TO HOUSEHOLDS WHOSE TOTAL INCOME, INCLUDING BENEFITS, PUT THEM ABOVE 150 PERCENT OF THE POVERTY LINE. ABOUT ONE-FOURTH OF AFDC BENEFITS, ONE-FOURTH OF FOOD STAMPS AND ALMOST ONE-HALF OF PUBLIC HOUSING BENEFITS WENT TO RELATIVELY BETTER-OFF HOUSEHOLDS.

CONGRESS JOINED THE ADMINISTRATION IN 1981 TO IMPLEMENT MAJOR REFORMS TO SLOW THE GROWTH OF SPENDING WHILE MAINTAINING BENEFITS FOR THE NEEDY.

THERE IS CONTROVERSY THAT THESE REFORMS MAY HAVE HURT THE POOR OR THAT THEY WERE "UNFAIR" TO THE NEEDY. SUCH CRITICISM IS SERIOUS AND WARRANTS OUR ATTENTION.

I THINK, HOWEVER, THAT THE FACTS SHOW THAT WE HAVE BEEN EFFECTIVE IN SLOWING THE GROWTH OF THESE PROGRAMS AND TARGETING BENEFITS TO THE NEEDY AND AWAY FROM THE RELATIVELY BETTER OFF. LET ME REVIEW THE EVIDENCE.

FIRST, OVERALL SPENDING FOR MEANS-TESTED PROGRAMS CONTINUES TO GROW (SEE CHART I). PROGRAM FUNDING LEVELS INCREASED DRAMATICALLY FROM 1970 TO 1983, WITH AN INCREASE OF $7 BILLION BETWEEN 1981 AND 1983. AFTER ADJUSTING FOR INFLATION, THESE PROGRAMS EXPERIENCED STEADY SPENDING FROM 1981 TO 1983 (SEE CHART 2).

THE SUCCESS OF THE REFORMS IS EVIDENT IN PROGRAM GROWTH RATES (SEE CHART 3). BETWEEN 1970 AND 1975 SPENDING GREW AT AN ANNUAL RATE OF 20 PERCENT. DURING THE SECOND HALF OF THE 1970S EXPENDITURES GREW ON AVERAGE 13 PERCENT. WITH RECENT REFORMS, MEANS-TESTED PROGRAMS ARE NOW GROWING AT A MORE AFFORDABLE RATE OF 6 PERCENT A YEAR.

REAL GROWTH RATES EXHIBIT A SIMILAR PATTERN OF HIGH GROWTH IN THE EARLY 1970S, SLOWER GROWTH IN THE LATER 1970S, AND A SMALL AMOUNT OF REAL GROWTH OVER THE PAST THREE YEARS. '

FOR THE NEEDIEST INDIVIDUALS, THOSE IN HOUSEHOLDS WITH $10,000 INCOME PER YEAR OR LESS, FEDERAL BENEFITS INCREASE EACH YEAR (SEE CHART 5). AVERAGE BENEFITS PER HOUSEHOLD ARE PROJECTED TO INCREASE FROM $6,250 IN 1982 TO $7,300 IN 1985.

REFORMS IN THE MEANS-TESTED PROGRAMS HAVE DIRECTED FUNDS TOWARD THE NEEDIEST PEOPLE AND AWAY FROM THE RELATIVELY BETTER OFF (SEE CHARTS 6 AND 7). THERE WERE SIZEABLE INCREASES FROM 1980 TO 1982 IN THE NUMBER OF RECIPIENTS WITH INCOME BELOW 130 PERCENT OF POVERTY. THERE WERE COMPARABLE DECREASES IN THE NUMBER OF RECIPIENTS WITH INCOMES OVER 130 PERCENT AND OVER 185 PERCENT OF POVERTY (ABOUT $18,244 FOR A FAMILY OF FOUR IN 1982).

WE MUST ALSO EXAMINE THE IMPACT OF RECENT TAX CUTS ON LOWER-INCOME AMERICANS. CRITICS CLAIM THAT THESE TAX CUTS WERE NOT FAIR TO LOWER-INCOME TAXPAYERS. THE FACTS, THOUGH, ARE OTHERWISE.

All taxpayers received tax reductions roughly in proportion to the taxes they paid in 1980. The largest tax cut in aggregate dollar terms went to the $20,000 to $40,000 middle-income group. The reason is simple. This group contains the most households and earns most of the nation's income.

Measured as a percentage of the total personal income tax bill for the country as a whole, the "Less than $10,000 household" income group would have paid almost 2 1/2 percent of all individual income taxes in 1982, if pre-ERTA law had remained in effect. In 1985, after all of the tax legislation of 1981 and 1982, this low income group will pay about 2.1 percent of all individual income taxes. This is a 12.5 percent decrease in aggregated burden on the lowest income taxpayers. During the same time period, the aggregate burden on households with over $80,000 in income will have increased 10 1/2 percent.

The legislative changes in the programs that help low-income households formed part of a larger agenda to improve the quality of life of all Americans by, among other things, slowing the rate of inflation. The poor benefit greatly from any reduction in inflation.

For basic commodities like food, shelter, energy and medical care, which consume a major portion of a low-income household budget, inflation decreased dramatically over the past several years (see chart 8). The inflation rate for the basics was 17.4% in 1979. By 1983 this rate dropped to 3.4%. This is the fairest policy of all.

A lower income working family of four now needs to spend about $75 per week on groceries (see chart 9). If the food inflation rate experienced from 1977 to 1981 had continued, this family would have spent about $94 per week. Over a one year period, they have saved $1,000 because of the reduction in inflation.

I want to conclude by saying that spending for the poor grew because of the desire of Americans to help their less fortunate neighbors. We remain dedicated to that principle. We also realize now that increasing employment and decreasing inflation are just as important as how we spend the taxpayers money. Our challenge is to work toward fairness for all Americans

Let me welcome our five expert witnesses today. We have:

- Dr. Robert Rubin, Assistant Secretary for Planning and Evaluation in the Department of Health and Human Services.
- Dr. Janet Norwood, Commissioner of the Bureau of Labor Statistics in the Department of Labor.
- Dr. Blanche Bernstein, Director of the Social Policy Research Institute at the New School for Social Research.
- Dr. John Palmer, Co-Director of the project "Changing Domestic Priorities" at the Urban Institute.
- Dr. Frank Levy, Professor of Public Policy at the University of Maryland.

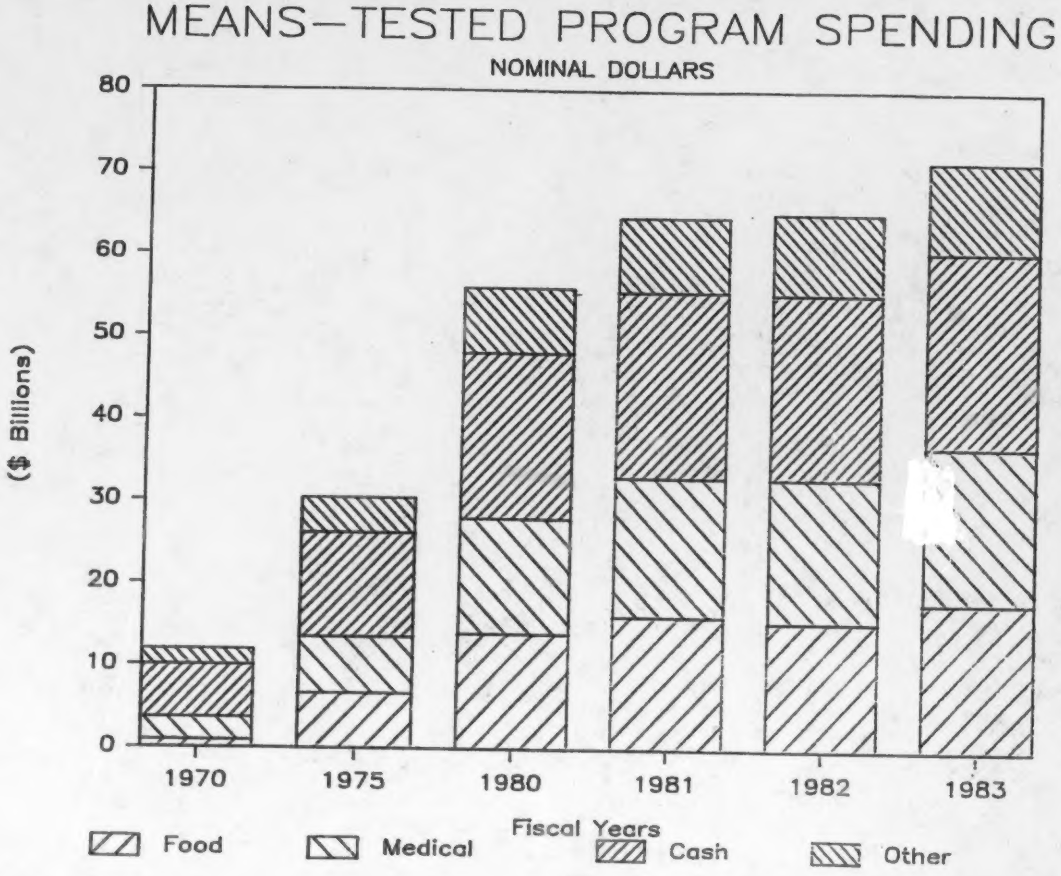
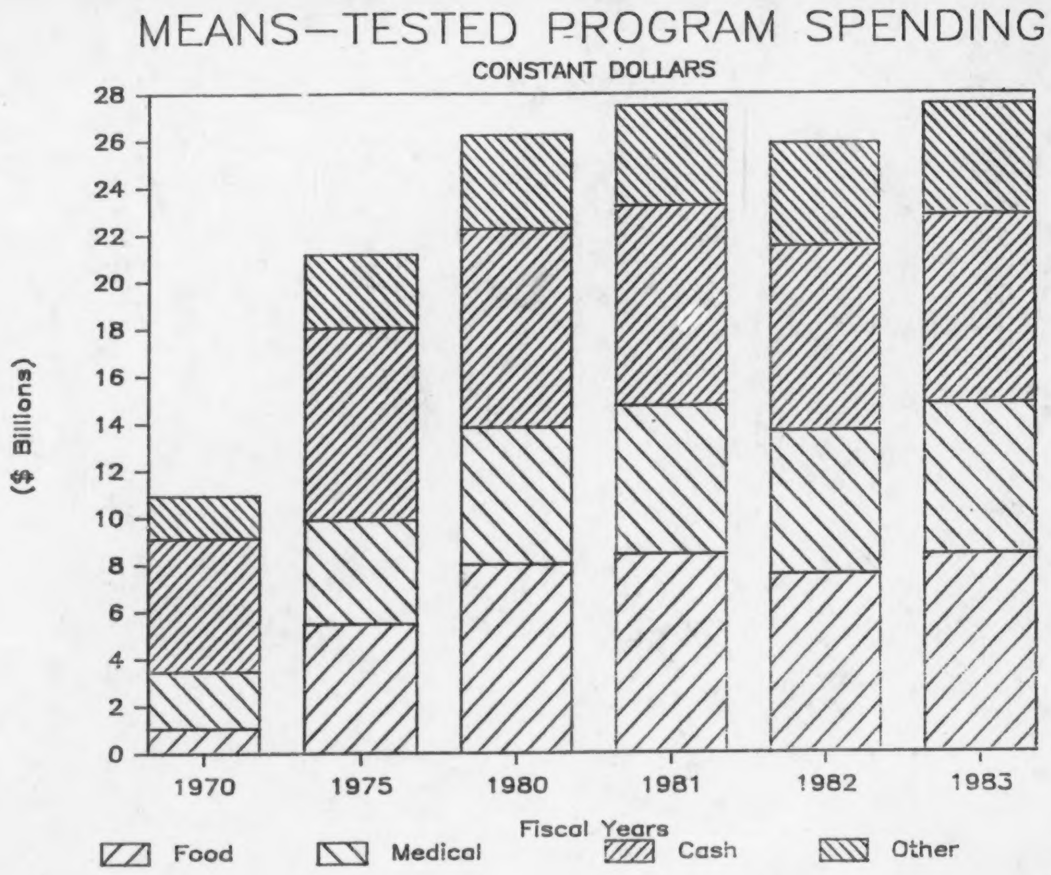

MEANS–TESTED PROGRAM SPENDING
NOMINAL DOLLARS
($ Billions)
80
70
60
50
40
30
20
10
0
1970
1975
1980
1981
1982
1983
Fiscal Years
Food
Medical
Cash
Other

CHART 1


MEANS–TESTED PROGRAM SPENDING
CONSTANT DOLLARS
($ Billions)
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
1970
1975
1980
1981
1982
1983
Fiscal Years
Food
Medical
Cash
Other

C H A R T 2

COMPOUND ANNUAL GROWTH RATES FOR MEANS-TESTED PROGRAMS

Nominal Growth (in percent)	1970 - 75	1975 - 80	1980 - 83
Food assistance............	47	16	7
Medical assistance.........	20	15	8
Cash assistance............	15	10	4
Other......................	17	13	9
Total.................	20	13	6

Real Growth (in percent)	1970 - 75	1975 - 80	1980 - 83
Food assistance............	39	8	1
Medical assistance.........	13	6	2
Cash assistance............	8	1	-1
Other......................	11	5	4
Total.................	14	4	1

CHART 3

FEDERAL BENEFITS FOR HOUSEHOLDS WITH INCOMES UNDER $10,000*

	FY1982	FY1983	FY1984	FY1985
Cash benefits...............	$3,900	$4,200	$4,150	$4,300
Medical care benefits.......	1,400	1,550	1,700	1,900
In-kind benefits other than medical care.........	950	1,100	1,100	1,150
Total....................	$6,250	$6,800	$6,950	$7,300

Note: Households with incomes under $10,000 (in 1982 dollars). Policies of First Concurrent Resolution on the Budget, FY 1984, excluding reserve fund items.

Source: Congressional Budget Office

CHART 4

AVERAGE BENEFITS PER RECIPIENT, FY 1980 - 83

	FY 1980	FY 1981	FY 1982	FY 1983	% Change 1980 - 83
Average food stamp benefit per recipient:					
In current dollars.........	$ 34	$ 39	$ 39	$ 43	+26
In constant (1972) dollars.	20	20	19	20	0
Average AFDC benefit per recipient:					
In current dollars.........	94	96	103	106	+13
In constant (1972) dollars.	39	36	36	35	-10
Average SSI benefit per recipient:					
In current dollars.........	168	183	196	212	+26
In constant (1972) dollars.	70	68	68	71	+ 1

CHART 5

DISTRIBUTION OF RECIPIENTS BY POVERTY CLASS

(number of recipients in thousands)

	1980	1981	1982	% Increase 1980 - 82
PUBLIC ASSISTANCE				
Poverty Ratio:				
Less than 130%...........	11,052	11,493	12,040	+ 9%
130% to 185%.............	1,831	1,771	1,161	-37%
Above 185%...............	2,122	1,706	1,273	-40%
FREE OR REDUCED PRICE LUNCHES				
Poverty Ratio:				
Less than 130%...........	7,561	7,684	8,469	+12%
130% to 185%.............	2,256	2,196	1,975	-12%
Above 185%...............	2,561	1,864	1,550	-39%
MEDICAID				
Poverty Ratio:				
Less than 130%............	13,746	14,180	14,939	+ 9%
130% to 185%..............	2,233	2,311	1,541	-31%
Above 185%................	3,033	2,968	2,444	-19%

CHART 6

DISTRIBUTION OF RECIPIENTS BY POVERTY CLASS

(number of recipients in thousands)

	1980	1981	1982	% Increase 1980 - 82
HOUSING				
Poverty Ratio:				
Less than 130%...........	4,797	5,136	5,606	+17%
130% to 185%.............	1,064	1,154	1,304	+23%
Above 185%...............	991	993	923	- 7%
SSI				
Poverty Ratio:				
Less than 130%...........	4,257	4,148	4,149	- 3%
130% to 185%.............	1,132	1,007	909	-20%
Above 185%...............	1,765	1,765	1,501	-14%
FOOD STAMPS				
Poverty Ratio:				
Less than 130%...........	17,167	18,261	19,941	+16%
130% to 185%.............	2,804	2,780	2,087	-26%
Above 185%...............	2,367	2,291	1,796	-24%

CHART 7

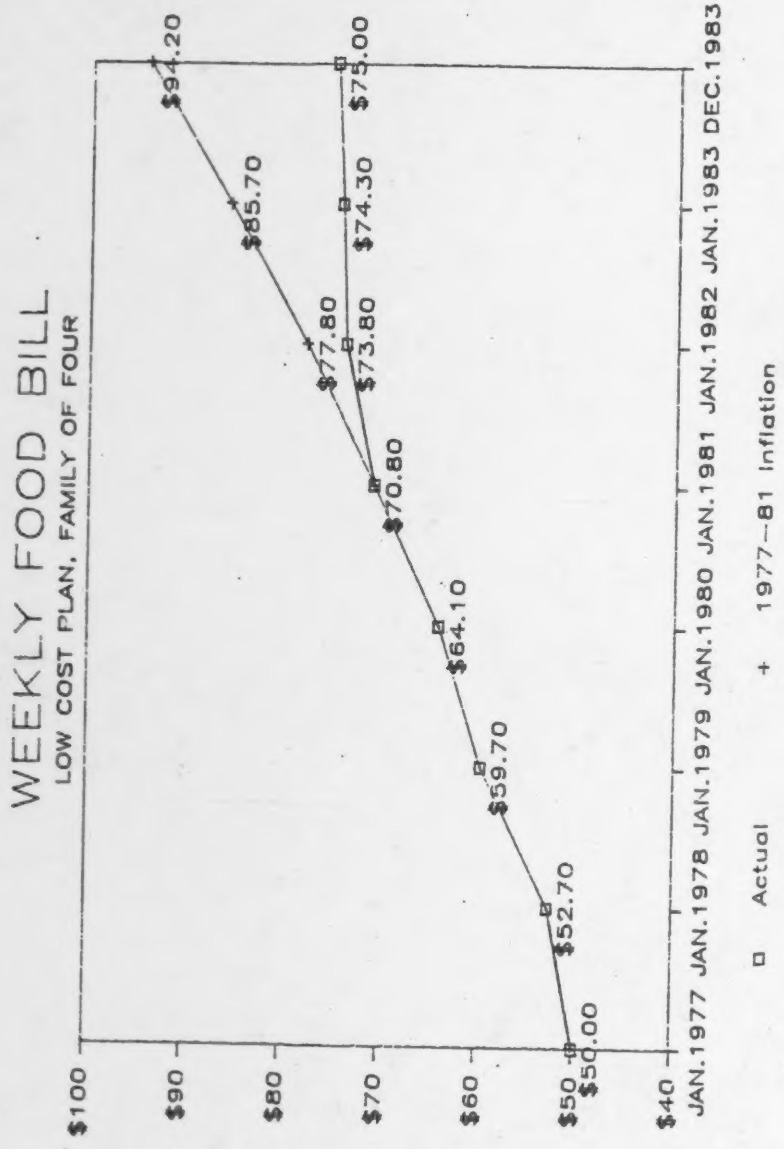
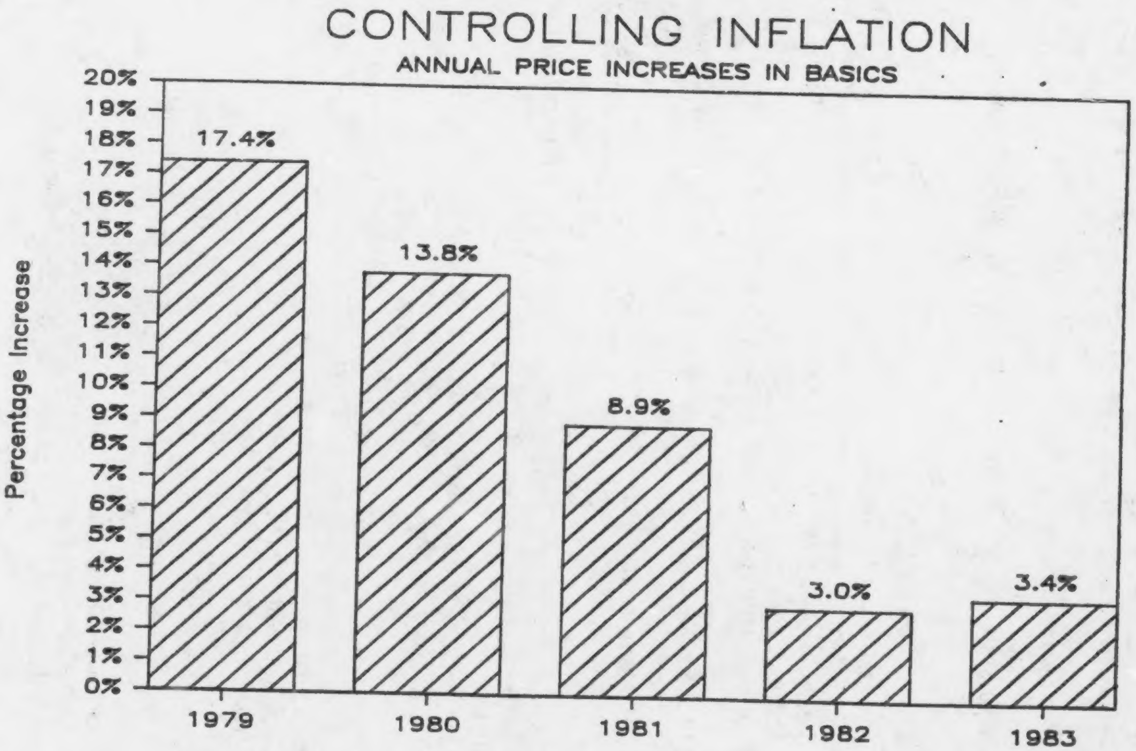

WEEKLY FOOD BILL
LOW COST PLAN, FAMILY OF FOUR
$100
$90
$80
$70
$60
$50
$40
JAN.1977
JAN.1978
JAN.1979
JAN.1980
JAN.1981
JAN.1982
JAN.1983
DEC.1983
$50.00
$52.70
$59.70
$64.10
$70.80
$73.80
$77.80
$74.30
$85.70
$75.00
$94.20
□ Actual
+ 1977—81 Inflation

CHART 8



CONTROLLING INFLATION

ANNUAL PRICE INCREASES IN BASICS

CHART 9

Chairman **Domenici**. I will now yield to Senator Chiles, and then, Dr. Rubin has asked to go first, because he has to go somewhere.

Senator **Metzenbaum**. Mr. Chairman, I would like to make an opening statement.

Chairman **Domenici**. All right. We will get to that shortly.

Lawton.

OPENING STATEMENT OF SENATOR CHILES

Senator **Chiles**. Mr. Chairman, I will submit my full statement for the record,[1] but if I could make some remarks, I think one of the main points would be that the current tax and spending policies have helped the wealthy and have hurt the poor, and they have left the middle class at about the same place that they were 4 years ago.

The tax bite for families in the bottom 20 percent of the economy has risen from about 9.7 percent of their income to near 12 percent since 1979. President Reagan's tax program actually costs a family making less than $10,000 a year $280. If you make between $20,000 and $40,000, then the President's tax plan gives you an extra $1,000 per year. But if you make more than $80,000, then you get a $19,000 windfall. And it costs the Treasury $21 billion to pay for that windfall.

While the wealthy gain more, we see more become poor. Last week's Census Report shows that the number of people below the poverty line has increased one-third, no matter how you count them. Now, we had this notion going for a while that you could not tell when they went below the poverty line whether that was as a result of the program or whether that was a result of the recession. Now these figures show, regardless of how you want to count them, that we have got a third more below the poverty line.

A soon to be released study shows that in 1982, close to 3 million people were driven into poverty because of the administration's budget and policy changes. That does not include millions who became poor because of the recession. It is an important study, because previous studies did not distinguish between budget cuts and the recession when measuring the impact on poverty.

The average family has no more disposable income than it did in 1979. If you count Federal, State, and local taxes, there has been virtually no change in the total tax rates for the middle-income people.

The real growth in the GNP has gone up about 1 percent a year since President Reagan took office. Real per capita GNP has increased only $87 in the first 3 years of this administration, and that seems to me to be little to show for the pain that we have had.

The working poor have not really gained. The AFDC eligibility changes have produced a yearly benefit loss of about $1,400 per family. Moreover, opportunities for the needy have been reduced by the budget cuts; $200 million for education of the disadvantaged virtually ignores the proposals of the President's Task Force on Hunger.

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[1] See p. 255.

If you take out the slogans and the politics, the evidence says that there has been plenty of unfairness. Big deficits are hard on everyone. They definitely hurt the needy more than others. I think we have to cut these deficits. But we cannot forget as we are trying to cut them—and I think we should cut them now—how much spending reductions have already affected the needy. It is time for everyone to pull their fair share in the deficit fight. Certainly, it is time for fairness.

And if I could comment just briefly on some of the figures that are put up on the board, the administration in its budget proposals for 1984 presents figures from the U.S. Census data which purport to show that 42 percent of all income-tested benefits go to households above 150 percent of the poverty line. That same figure claimed to show 83 percent of the benefits go to households above 100 percent of the poverty line.

FLAWS POINTED OUT

Now, the administration's use of this data has been discredited by Thomas C. Joe, a former Nixon welfare expert who now directs the Center for Study of Social Policy. Mr. Joe points out three fatal flaws involved by using these data for the type of inferences that the administration makes.

For example, if a mother loses a well-paying job halfway through the year and then receives welfare benefits for the remainder of the year, the data would show a welfare family that was not poor. Of course, the family was poor after she lost her job, and they were definitely eligible for benefits, but the data cannot make this distinction. The Census Bureau explicitly warns researchers against committing the three fatal flaws.

A recent study by a researcher in Dr. Rubin's office was able to correct for some, but not all, of these flaws. The study indicated that only 31 percent of the benefits raised household incomes above the poverty line as contrasted to the administration's figure of 82 percent going to nonpoor households. Of course, unless a researcher could correct for the other flaw as well, it is impossible to infer from this data that any benefits went to the nonpoor family.

I would like to point out something else that is unfair about the administration's figures. The figures assume a value of over $3,000 a year for the medicare benefits received by every elderly couple in the United States. The poverty line for this couple was about $5,500 a year. Therefore, any elderly couple whose cash income is greater than $2,500 a year could not be considered poor. It is hard for me to see how any elderly couple could get by with less than $2,500 a year income. The same unfair assumption is made in the value of benefits received by all medicare recipients. Moreover, the Census Bureau's expert consultant in these matters has explicitly recommended against counting medicare benefits in this area.

The figures presented this morning regarding our supposed success at targeting benefits to the poor since 1980 are based on the U.S. Census survey data. Therefore, the same flaws apply to these figures as to the administration's. I think it is impossible to infer from this data what has happened to the number of recipients above or below the poverty line. Moreover, the comparison of the

1982 data with 1980 data is misleading because it fails to take into account the impact of the recession on means-tested programs. As the recession deepens, people become poor; therefore, the number of recipients below the poverty line automatically increase, and the number above the poverty line decrease.

PRESIDENT MAKES MISLEADING COMPARISON

Indeed, it is exactly this type of misleading comparison that President Reagan makes reference to when he claims we are spending more money on food assistance than ever before in our history. The real record is much different.

According to the Center for Budget and Policy Priorities, the bulk of the food stamp cuts come from reducing benefits to households below the poverty line. Moreover, many cuts proposed by the administration but not enacted would have reduced food stamps much further for those below the poverty line. Comparing real expenditures on means-tested programs in 1981 to expenditures at an earlier point in time such as 1970, is also somewhat misleading, for many of the key assistance programs did not exist at the beginning of 1970. Food stamps became a national program in 1974; SSI also began that year. Its predecessor programs had much lower benefit levels. Expenditures for fuel assistance for the poor began in 1980. Housing assistance began in the seventies. Obviously, expenditures grew as new programs were initiated. I do not think that we are recommending that these programs be dropped now, so showing the high, high expenditures in these early years and showing that they are leveling out does not take into account the fact that those programs were just being initiated at that time.

[The prepared statement of Senator Chiles follows:]

Senator **Lawton Chiles**

Florida

Senate Budget Committee, Room 634, Dirksen, Washington D.C. 20510 202-224-8695

Contact: Dennis Beal

RELEASE ON DELIVERY
February 28, 1984

Remarks of
Senator Lawton Chiles
At A
Senate Budget Committee Hearing
On
Fairness and the Administration's Economic Program
February 28, 1984

I want to welcome our panelists here this morning to discuss the impact of the Administration's economic program on different groups in the United States.

I don't want to fool around with slogans. I want to survey some evidence this morning to show that what the Administration terms "success" has come at the expense of a good many Americans, and enriched many others.

Federal, state and local taxes on families in the bottom 20 percent of the economy have gone up from 9.7 percent of income in 1979 to nearly 12 percent in 1984. By contrast, the richest families saw their average tax as a percentage of income decline by one half a percent.

The tax cuts so far will actually mean $310 less in income to a worker whose annual income is less than $10,000. If the annual income is between $20,000 and $40,000, the tax cut will add just over $700 to that income. But if a person's annual income exceeds $80,000, that person will actually get a $14,000 windfall from the tax cuts. It will cost the Federal Treasury $21 billion to provide those tax benefits to the high income people.

So the tax changes of the Administration produced a tilt toward the wealthy and away from the poor and those people in the middle income group.

When you look at the budget, you find additional bias. During the Carter Presidency, the percentage of people below the poverty line declined in three out of four years. But in both 1981 and 1982, the number of people below the poverty level actually increased a full percentage point over the year before. And the census figures just released last week tell us that no matter how you calculate poverty, the number of people below the poverty level has increased by one-third or more since 1979.

Even more unfair is the fact that a soon-to-be-published analysis shows that in 1982, close to 3 million people were driven into poverty by the Reagan budget and policy changes. This does not include the millions more who became poor because of the recession. This is a significant point since previous studies did not distinguish between recession and budget cuts when it comes to weighing the impact on poverty.

In the last three years the distance between the very wealthy and the very poor has grown. The average family has no more disposable income now than in 1979. Moreover, there has been no real improvement for the great body of people in the middle income range. And, if you figure in all levels of taxation from the Federal to the local, there has been on average virtually no changes in their total tax rates.

What are we to conclude from all this? Without rhetoric and without exaggeration, the combined tax and spending policies of this Administration have made those who were well off three years ago, better off today. Those in the middle are no better off and the very poor are even poorer. And there are more of them.

Since the Reagan Administration has taken office, real GNP has increased only about 4 percent; that's average annual growth of a little over 1 percent. Unemployment reached a post-war level of 10.8 percent, while business failures and bankruptcies soared. We've had an average recovery. But let's not confuse recovery with progress. Real per capita GNP increased only $87 in the first three years of the Reagan Administration.

The promise of economic growth, already clouded by high federal deficits, doesn't seem to hold much hope for the poor and the hopeful, even if it comes to pass. If you are poor but working, you can only be discouraged by White House policy so far. Changes in AFDC eligibility for families with earnings, have produced an average yearly benefit loss per family of $1400.

The Administration argues this is a hold-the-line-budget -- no cuts, no adds. But I want to put in the record a list of $105 billion in domestic program cuts projected between 1985 and 1989 to illustrate further the true impact of White House budget policy on the needy.

Even assuming full employment, the percent of GNP devoted to means-tested entitlements (other than health) will be down by 25% between 1980 and 1989. The percentage for other domestic programs, many of which provide services and assistance to poor people, will be down by one-third. But the percentage devoted to defense will be up by 50% and the percentage going to net interest will double, because of huge budget deficits.

Poor people will have a tough time -- even tougher than in the past -- achieving economic dignity, especially since equality of opportunity seems to have been denied further when programs like education for the disadvantaged are reduced another $200 million in this year's budget.

Now I understand, like most everyone else, that federal deficits are a massive problem. That's why we will have to find ways to achieve overall restraint so we can find the room to protect the needy. If we can still find room for growth in national defense, we must certainly find room to defend our people against poverty at home.

I hope this hearing today will help show the way toward a more fair budget.

INFLATION ON BASIC COMMODITIES IS DOWN

Chairman **Domenici**. Could I just make one comment, and I will go to Senator Metzenbaum.

That last chart [see chart 9, p. 251], that I failed to mention, I think, is pretty dramatic. Basic commodities like food, shelter, energy, and medical care consume a major portion of the low-income household budget, since inflation decreased dramatically over the past several years, they have been affected dramatically. The estimate of inflation on the basics was 17.4 percent in 1979. By 1983, using that same test, it was down to 3.4 percent. I think that is the fairest policy of all.

A low-income working family of four needs to spend about $75 a week on groceries. If the food inflation that we experienced from 1977 through 1981 had continued, they would spend about $94 per week. Over 1 year, that is $1,000 saved because of the reduction in inflation.

So whatever it is we do by way of policy, it would seem to me that the one thing we must try to do is to avoid rekindling the inflation fires in the country, because we can hardly affect that many people with that much money with any program that we can initiate or invent by way of legislation.

Now, Senator Metzenbaum, we will yield to you, and we will hold to our commitment, Dr. Rubin.

OPENING STATEMENT OF SENATOR METZENBAUM

Senator **Metzenbaum**. Mr. Chairman, first, I want to commend you for setting up this hearing, because I think the whole question of fairness and equity is a paramount issue and it really has to do with whether this administration has or has not been fair and equitable to its people.

America's poor, elderly, hispanics and women have all suffered at the hands of this, the least fair and the least compassionate administration in our history. But nowhere is the Reagan administration's lack of fairness more evident than in its treatment of black Americans. Here, nearly every commitment has been ignored, every promise shattered. And unfortunately, ignoring reality has become an obsession with this administration.

So, while economic good news is touted, and the President does it so magnificently well on the tube, increasing poverty and unemployment among blacks is dismissed or ignored as a statistical aberration.

The President has declared, "America is back." So the problems of blacks have once again become invisible.

Now, the President promised in his inaugural address that he would put Americans back to work, which means putting all Americans—all Americans—back to work. He said this administration's objective will be a "healthy, vigorous, growing economy, that provides equal opportunities for all Americans, with no barriers born of bigotry or discrimination."

2 MILLION BLACKS UNEMPLOYED

And the reality? Two million blacks are officially unemployed—a half million more than when Reagan took office, and the highest number since statistics were first kept by race, 35 years ago.

One out of every two black teenagers is without a job. The administration cut employment and training programs by 36 percent. The Job Corps program, one of the most successful Federal programs ever devised for unemployed youth, is frozen.

Fairness and economic advancement? What was the President's promise? To advance the conditions of all Americans, especially black Americans. That was his policy statement of January 31, 1980. In his inaugural address of January 21, 1981, he said, "All of us together, in and out of government, must bear the burden. The solutions we seek must be equitable, with no one group singled out to pay a higher price."

The fact is, the blacks have been singled out by being cast aside. Today, 9.6 million black Americans live below the poverty line, 1.1 million more than when Reagan took office. As a matter of fact, the administration claims that we do not count poor people right. But the recent census study included inkind benefits and still showed, no matter how you count them, the number of blacks in poverty has increased by between 20 percent and 50 percent since 1979.

An estimated 400,000 families have lost AFDC benefits. Another 260,000 families had their benefits cut. Half of the participants in the AFDC program are black Americans. Over 1 million people lost their food stamp benefits. One out of every three food stamp recipients is a black American.

Median family income of blacks in 1982 had less purchasing power than the year before, and was only 55 percent of that for white families.

PROGRAMS FOR CHILDREN REDUCED

Now, the President spoke to the issue of black children and children generally. He said, "Our children come first," in his state of the Union message in 1984. But the black infant mortality rates now exceed those of Jamaica, Cuba, Bulgaria, Czechoslovakia, East Germany, and Poland. Seven hundred thousand black children live in families with incomes under $3,000 a year, and one in every two black children live below the poverty line. Over half a million black children have fallen below the poverty line since 1979.

Now, it is an interesting fact of life that when we learn about a child in distress, when we learn about a child that loses its life, when we learn about a child that is suffering an incurable illness, the whole Nation's heartstrings are tugged as we watch it nightly on the TV. But a half a million black children falling below the poverty line since 1970 and not being able to have food to put into their tummies, nobody seems to care.

The administration's response? Child nutrition programs cut 29 percent. One of every six participants is a black child. Education programs for disadvantaged children cut 20 percent. Every third student in this program is a black child.

In 1982, 700,000 children were eliminated from the medicaid program. This proqram helps pay the medical bills of one out of every four black families in America. On the issue of fairness in health care? The President promised to provide the highest quality health care for the greatest number of people, in his speech to the AARP in October 1980, and yet, the HHS annual report put it this way: "While some racial disparities exist, the outlook for blacks as for all Americans has vastly improved."

Let's look at the facts, reality. Cancer among blacks is increasing at twice the rate of whites. Black deaths from cancer are increasing at four times the rate for whites. Lead poisoning among black children is three times the rate for white children. Blacks have a 37-percent higher risk of work-related disease and a 20-percent higher death rate from work-related illness. In Watts, there is one doctor for every 3,000 residents, and the national average is 1 for every 440 residents.

FAIRNESS IN CIVIL RIGHTS

The President promised to defend the constitutional rights of even the least individual among us at the point of a bayonet, said he to the New York Times on January 20, 1980. But the reality is that he sought to extent tax-exempt status to Bob Jones University and other schools that practice racial discrimination. He opposed extension of the Voting Rights Act until the passage was imminent. He opposed the existence of an independent Civil Rights Commission, and Justice has not filed a single suit dealing with segregation in elementary and secondary education and only filed six with respect to housing, whereas 32 had been the average in the past. The number of equal opportunity suits brought by the administration has declined by more than 70 percent compared with the Carter years.

Fairness and the promise of a compassionate administration? The President said in his inaugural address:

> We shall reflect the compassion that is so much a part of your makeup. How can we love our country and not love our countrymen? In loving them, reach out a hand when they fall; heal them when they are sick, and provide opportunity for them to make them self-sufficient so they will be equal in fact and not just in theory.

And yet the reality, in some other quotes, he went on to say:

> Actually, if there are some individuals who suffer from our economic programs, they are people who have been dropped from various things like food stamps because they were not morally eligible for them.

The famous Reagan quote in the Wall Street Journal of February this year.

Chairman DOMENICI. Senator, could I ask how much longer you have?

Senator METZENBAUM. About 3 minutes.

Chairman DOMENICI. I really think that that is a little lengthy, and it is aside from many of the issues that are here.

Senator METZENBAUM. Two minutes?

Chairman DOMENICI. We have a policy here, and I would bend it for you, but I do not think you ought to give a 20-minute campaign speech on every issue affecting the President at this hearing. I do not think I did that; I do not think Senator Chiles did.

So, if you want to go another minute, I think that is about as fair as we can be.

Senator METZENBAUM. Fine, Mr. Chairman, that is fine.

Chairman DOMENICI. All right.

WEIGH THE EQUITIES

Senator METZENBAUM. The fact is, when you look over there at that chart, you really understand what the issues are all about, because they really have to do with the politics of pain and the politics of plenty.

Over 9.5 million black Americans live below the poverty line—but Jaguar sales are up 300 percent. One out of every two black teenagers is unemployed. And in 1982 the number of millionaires increased by 50 percent—during that same period another 5 million Americans fell below the poverty line.

I think what we are really talking about is what is fair, what is right. And I think that this Budget Committee, in its determinations and deliberations, does have to deal with this very issue of weighing the equities, weighing the whole tax programs that have made the rich richer and the poor poorer, and at the same time, considering how we can find the ability to raise the expenditure for military bands from $104 million to $139 million, while at the same time, cutting back on programs that are so meaningful to the poor and to the blacks of America.

I thank you.

Chairman DOMENICI. I thank you very much.

All right. We are going to proceed now with the witnesses, starting with Dr. Rubin.

Dr. Rubin, we have your prepared remarks. They will be made a part of the record.[1] You can proceed either to read them or to summarize them, and then we will have some questions.

Thank you for coming.

STATEMENT OF DR. ROBERT J. RUBIN, ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Dr. RUBIN. Thank you, Mr. Chairman.

With your permission, I would like to summarize my rather lengthy formal testimony.

Chairman DOMENICI. Please.

Dr. RUBIN. We welcome this opportunity to discuss the impact on both individuals and households of the economic and legislative changes that have occurred during the last several years. I would like to confine my remarks to the several programs administered by our Department, the Department of Health and Human Services, which are in large part designed to address the needs of our Nation's poor.

To set the record straight, this administration, this President, and this Secretary of Health and Human Services clearly want to improve the standard of living for all our people. Our policy to accomplish this goal is twofold.

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[1] See p. 269.

First, our efforts to strengthen the economy are the essential element to improving the economic well-being of all our citizens. The strong expansion we are currently experiencing is producing 300,000 jobs per month. In addition, the low rate of inflation we have achieved preserves the value of incomes from these jobs.

Second, for those who are unable to provide for themselves, the Federal and State Government must maintain programs that assure that every American maintains a decent standard of living. I would like to emphasize our belief that public assistance should not be used as an alternative to work. For employable family heads who are unable to obtain jobs, public assistance should provide temporary support as well as work experience and training to enable them them to become self-supporting.

ECONOMIC GROWTH AND LOW INFLATION IMPORTANT IN REDUCING POVERTY

Obviously, the economy is the backdrop against which public policy must be made. In 1981, when President Reagan took office, this country was entering a severe recession. The poverty statistics for 1982 reflect the overall recession-related hardship. Largely because the President's program for economic recovery is working, we expect the poverty rate in 1983 to be substantially lower than the 15-percent rate in 1982.

Under the policies of this administration, the average real wages of American workers increased by more in 1983 than in any year in the past decade.

The importance of economic growth and low inflation in reducing poverty cannot be overstated. The increase in poverty since 1978 is due primarily to the poor performance of the economy during that period.

Research by Sheldon Danziger, from the University of Wisconsin and Peter Gottschalk, from Bowdoin College—neither of whom are supporters of this administration—concluded that the poverty-reducing impact of 11 years of growth from 1967 to 1978 in earnings and private income was canceled by 3 years of rapid economic decline, namely, 1978 to 1981.

A low inflation rate is obviously essential to retaining the purchasing power for low-income persons—whether workers or those who are unable to work. If the inflation rate of 12.4-percent in effect during the last year of the Democratic administration had not abated, the poverty threshold would be higher, and it is likely that the number of persons below the poverty level would be greater.

As an example of the beneficial effects of this reduction in inflation, consider the level of benefits to families entirely dependent on AFDC or other public assistance. From 1970 to 1983, the purchasing power of AFDC benefits declined by more than 30 percent. The value of benefits has continued to decline, but the 6 percent reduction from 1981 to 1983 was considerably smaller than for any other recent 2-year period. In fact, if the 12.4-percent inflation rate of the Carter administration continued, the value of the benefits would have declined not 6 percent, but 21 percent, between 1981 and 1983.

COMPOSITION OF THE POOR

To consider how Government might best address poverty, we need to examine the poor in greater detail. The poor are not a homogeneous group. They can, for policy purposes, be divided into four mutually exclusive groups.

The first group would be the elderly, who account for 10.9 percent of the poor, and have a poverty rate of 14.6 percent.

Second, single females with dependents, who make up 32.8 percent of the poor, and have a poverty rate of 42.1 percent.

Other adults age 25 to 64, constituting 52.3 percent of the poor, with a 10.4-percent poverty rate.

And finally, young, single people age 16 to 24, accounting for the remaining 3.9 percent of the poor, with a poverty rate of 32 percent.

As has been mentioned repeatedly this morning, only cash income is considered when measuring poverty; the value of noncash benefits is ignored.

As Senator Domenici has pointed out, in 1982, benefits under the major means-tested in-kind programs totaled $56 billion, which was more than double the $24 billion spent for the cash welfare programs of AFDC and SSI.

Furthermore, since 1970, spending in real terms for in-kind programs increased 325 percent, while spending on cash benefits declined slightly

Last week, the Census Bureau reported that if in-kind benefits were included in computing the 1982 poverty figures, the poverty rate would be reduced between 9 and 33 percent, depending on which of the four methodologies they chose to use was counted.

POVERTY GAP CLOSED

The 1982 Report on Poverty in America contains some very good news with respect to the elderly. The poverty gap between the elderly and all other Americans has been closed. For the first time since statistics were gathered, the poverty rate for the elderly is lower than the overall rate for the Nation as a whole. Citing a study that Senator Chiles talked about earlier, social insurance payments, principally retirement benefits, along with means-tested cash benefits, which are primarily SSI, and means-tested in-kind benefits, combined to reduce the poverty rate for elderly families from 68 percent to 7 percent.

As a result of recent actions by the administration and Congress, these transfer programs will continue to serve as a major tool for alleviating poverty among the elderly. The social security system has been placed on sound financial footing, and SSI benefits for those suffering financial hardship have been raised.

FEMALE-HEADED FAMILIES INCREASING

Turning to female-headed families, both the total number of such families and the number of such families in poverty have clearly been increasing dramatically and account for many of the statistics that Senator Metzenbaum referred to earlier.

In 1970, there were 6 million of these families. However, by 1980, the number increased nearly 50 percent, to 9 million, and increased again, reaching 9.5 million by 1982.

While the aggregate number and proportion of single-parent families headed by women grew dramatically, as well as the number of them in poverty, the important point here is that the likelihood of their being in poverty increased only slightly. From 1970 to 1980, the poverty rate for persons in this type family remained about 40 percent. Despite the recession, the poverty rate for this group rose only slightly, to 42.1 percent in 1982. Most individual female-headed families are not losing ground in their struggle to stay out of poverty. However, the growing number of female-headed families means that the number of such families in poverty will increase until the rate of poverty is reduced.

Over the past 23 years, two groups—persons in households headed by adults age 25 to 64, or by young people aged 16 to 24—have experienced significant reductions in their poverty rates. The trends in the poverty rates of these groups closely paralleled changes in the aggregate economic conditions. In each of the three recessions that occurred during the period between 1972 and 1982, the incidence of poverty in these two groups rose dramatically. These patterns clearly suggest the importance of economic conditions to the incidence of nonelderly poverty.

One important effect of the increased number of single-parent families headed by women has been the growth of the AFDC program since 1960. The program also expanded due to liberalizations in income disregards that became effective in 1969. As you know, both the Omnibus Reconciliation Act and the Tax Equity and Fiscal Responsibility Act, OBRA and TEFRA, respectively, enacted several changes that reduced benefits to families with incomes adequate to meet their basic needs. These changes included restrictions on the liberalized income disregards that were added in 1969.

Overall, these changes had positive effects on the program and on families most in need. The program was restored to one that provided temporary relief to families when they could not provide for themselves.

Importantly, and overlooked so far this morning, savings from these changes provided States additional funds with which they could increase benefits to those who were forced to rely on Government assistance. Since October 1981 when OBRA took effect, 37 States have increased their AFDC need or payment standards.

In addition to the ongoing policy of this administration to strengthen the economy, our Department is pursuing two major initiatives that aid needy women. The first is the increased emphasis on work experience and job search for welfare recipients, and the second is improved enforcement of child support.

EMPHASIZE WORK EXPERIENCE AND JOB SEARCH

This administration is committed to helping welfare recipients obtain the job training and work experience necessary to obtain jobs and reap the benefits of economic recovery.

We have promoted State use of job search programs for AFDC and food stamp applicants and recipients. Ten States already have established job search programs, and an equal number are considering doing so.

We have established the community work experience, or CWEP program, in which States have the option of requiring AFDC recipients to participate in a work experience program in return for receiving their grants. Twenty-two States now have these programs.

We are encouraging States to experiment with programs to divert welfare grants to wages—called grant diversion. These programs permit a State to take the AFDC grant that would be paid to a family and use it to subsidize the wages of the family head for a limited period of time. Employers then agree to hire the participant at full wages at the end of the subsidy period.

Finally, the Job Training Partnership Act enacted last year creates a new program for training the disadvantaged for jobs. This program emphasizes short-term training to enable participants to obtain jobs. As you know, welfare recipients must be served in proportion to their number among the disadvantaged population.

STRENGTHEN CHILD SUPPORT ENFORCEMENT

A key factor contributing to the poverty of female-headed families is the lack of child support from absent fathers. A recent Census Bureau study showed that nearly $4 billion of support due to children went unpaid in 1981 to the 5 million families with support orders. Another 4.8 million families with absent parents do not even have support orders.

To address this problem, the administration has proposed legislation that will encourage States to pursue and collect support payments more aggressively. We hope that the Senate will join rapidly with the House in passing our proposal.

With enactment of these proposals, we expect that child support payments for both welfare as well as nonwelfare children will increase. For welfare children, we expect more than a 40-percent increase in collections from 1982 to 1986 and for nonwelfare children, the amount of support collected should nearly double from about $.98 billion in 1982 to $1.8 billion by 1986.

It should be pointed out that in an effort to help or to understand why women leave welfare, a study done by Mary Jo Bane and David Ellwood of Harvard found that unmarried women with children, nonwhites, and high school dropouts are much more likely than others to have long spells of welfare.

On the other hand, they found that women with young children may well earn their way off welfare—indeed two-thirds of women who leave welfare through work have a child under age 6. Consistent with the findings of this particular study, HHS has granted waivers to four States to permit them to require mothers with children ages 3 to 6 to participate in work activities.

Ultimately, I believe we all share the same goal: That no person in this country live in poverty. It is the administration's goal to restore the economy to vibrant health and to make sure that all our citizens can partake of this national well-being.

Our budget for fiscal year 1985 reflects these goals, and I believe goes a long way toward allowing us to attain them.

I would be happy to answer any questions.

Senator DOMENICI. Thank you very much, Dr. Rubin.

[The prepared statement of Dr. Rubin follows:]

STATEMENT BY:

ROBERT J. RUBIN, M.D.

ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

FEBRUARY 28, 1984

BECAUSE SOME OF THE PROGRAMS ADMINISTERED BY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ARE IN LARGE PART DESIGNED TO ADDRESS THE NEEDS OF OUR NATION'S POOR, WE WELCOME THE OPPORTUNITY TO DISCUSS THE IMPACT ON INDIVIDUALS AND HOUSEHOLDS OF ECONOMIC AND LEGISLATIVE CHANGES THAT HAVE OCCURRED OVER THE PAST SEVERAL YEARS.

THIS ADMINISTRATION, THIS PRESIDENT, AND THIS SECRETARY OF HEALTH AND HUMAN SERVICES WANT TO IMPROVE THE STANDARD OF LIVING OF ALL AMERICANS.

OUR POLICY TO ACCOMPLISH THIS GOAL IS TWO-FOLD. FIRST, OUR EFFORTS TO STRENGTHEN THE ECONOMY ARE THE ESSENTIAL ELEMENT TO IMPROVING THE ECONOMIC WELL-BEING OF ALL AMERICANS. THE STRONG EXPANSION WE ARE CURRENTLY EXPERIENCING IS PRODUCING 300,000 JOBS PER MONTH. IN ADDITION, THE LOW RATE OF INFLATION WE HAVE ACHIEVED PRESERVES THE VALUE OF INCOMES FROM THESE JOBS.

SECOND, FOR THOSE WHO ARE UNABLE TO PROVIDE FOR THEMSELVES, THE FEDERAL AND STATE GOVERNMENTS FINANCE PROGRAMS

TO ASSURE THAT EVERY AMERICAN MAINTAINS A DECENT STANDARD OF LIVING. BUT LET ME EMPHASIZE THAT WE BELIEVE THAT PUBLIC ASSISTANCE SHOULD NOT BE USED AS AN ALTERNATIVE TO WORK. FOR EMPLOYABLE FAMILY HEADS WHO ARE UNABLE TO OBTAIN JOBS, PUBLIC ASSISTANCE SHOULD PROVIDE TEMPORARY SUPPORT AS WELL AS WORK EXPERIENCE AND TRAINING TO ENABLE THEM TO BECOME SELF-SUPPORTING.

IN MY TESTIMONY I WILL DISCUSS HOW THE POOR CAN BENEFIT FROM AN IMPROVED ECONOMY, WHAT GROUPS MAKE UP THE POOR, THEIR RECENT POVERTY TRENDS, AND WHAT, IN PARTICULAR, CAN BE DONE TO REVERSE THE GROWTH IN THE NUMBER OF POOR FEMALE-HEADED FAMILIES.

ECONOMIC GROWTH AND POVERTY

THE ECONOMY IS THE BACKDROP AGAINST WHICH ALL PUBLIC POLICY MUST BE MADE. IN THE LATE 1970'S, THE SCENE WAS BLEAK. INVESTMENT AND PRODUCTIVITY WERE DOWN WHILE INFLATION RAN RAMPANT. JOB OPPORTUNITIES DWINDLED. THE VALUE OF WELFARE BENEFITS DECLINED RAPIDLY AS THE COST OF LIVING SKYROCKETED. FOR EXAMPLE, FROM 1975

TO 1980, THE REAL VALUE OF AFDC BENEFITS DECLINED 16 PERCENT, ALTHOUGH THE NOMINAL VALUE ROSE 29 PERCENT.

BY 1981, WHEN PRESIDENT REAGAN TOOK OFFICE, THE COUNTRY WAS ENTERING A SEVERE RECESSION. PRESIDENT REAGAN MADE ECONOMIC RECOVERY HIS FIRST PRIORITY AND, WITH THE HELP OF CONGRESS, SET OUT TO REVERSE THE FAILED POLICIES OF THE PAST. HOWEVER, PROFOUND CHANGES IN ECONOMIC POLICY TAKE TIME, MORE THAN ANY OF US WOULD LIKE. BEFORE THE IMPACT OF THOSE POLICIES COULD BE FELT, MANY AMERICANS HAD LOST THEIR JOBS OR SUFFERED A REDUCTION IN INCOME.

THE POVERTY STATISTICS FOR 1982 REFLECT THIS OVERALL RECESSIONARY HARDSHIP. WE EXPECT THE POVERTY RATE IN 1983 TO BE LOWER THAN THE 15 PERCENT RATE IN 1982, LARGELY BECAUSE THE PRESIDENT'S PROGRAM FOR ECONOMIC RECOVERY IS WORKING. THE TURNAROUND BEGAN IN THE SECOND HALF OF 1982 AND CONTINUES AT THIS TIME. INFLATION HAS BEEN BROUGHT UNDER CONTROL. THE ANNUAL INFLATION RATE FOR 1983 WAS 3.2 PERCENT -- THE LOWEST RATE IN OVER A DECADE. UNEMPLOYMENT HAS BEEN DECLINING SINCE DECEMBER, 1982. SINCE THAT TIME, AN ADDITIONAL FOUR MILLION AMERICANS HAVE FOUND EMPLOYMENT. WITHOUT THE

LEADERSHIP OF THE PRESIDENT, THE ECONOMIC RECOVERY WOULD NOT HAVE BEGUN AS QUICKLY AND THE SUFFERING CAUSED BY THE RECESSION WOULD HAVE BEEN SUBSTANTIALLY GREATER.

ALTHOUGH MANY OF THE PROGRAMS THAT I SHALL DISCUSS LATER WILL HELP THE DISADVANTAGED PREPARE THEMSELVES FOR JOBS THAT CAN MAKE THEM SELF-SUPPORTING, A STRONG ECONOMY IS NECESSARY TO ASSURE THAT STABLE JOBS WITH OPPORTUNITIES FOR ADVANCEMENT ARE AVAILABLE. MOREOVER, FOR THOSE WHO HAVE SUCCEEDED IN MAKING THE TRANSITION FROM WELFARE TO WORK, A HEALTHY ECONOMY IS NECESSARY FOR THEM TO MAINTAIN THEIR STANDARD OF LIVING. UNDER THE POLICIES OF THIS ADMINISTRATION, THE AVERAGE REAL WAGES OF AMERICAN WORKERS INCREASED BY MORE IN 1983 THAN IN ANY YEAR IN THE PAST DECADE.

THE IMPORTANCE OF ECONOMIC GROWTH AND LOW INFLATION IN REDUCING POVERTY CANNOT BE OVERSTATED. THE INCREASE IN POVERTY SINCE 1978 IS DUE PRIMARILY TO THE POOR PERFORMANCE OF THE ECONOMY IN THAT PERIOD. RESEARCH BY SHELDON DANZIGER AND PETER GOTTSCHALK, WHO TESTIFIED BEFORE THE WAYS AND MEANS COMMITTEE LAST OCTOBER, DEMONSTRATES THIS RELATIONSHIP. THEY FOUND THAT THE LARGE REDUCTIONS IN POVERTY FROM 1967-1974 WERE DUE IN EQUAL

PART TO INCREASES IN EARNINGS AND OTHER PRIVATE INCOME AND TO TRANSFER PAYMENTS. THE SMALL REDUCTION IN POVERTY BETWEEN 1974 AND 1978 WAS DUE MOSTLY TO IMPROVEMENTS IN EARNINGS AND PRIVATE INCOME. SIMILARLY, THE INCREASE IN POVERTY SINCE 1978 IS DUE TO THE DECREASE IN REAL VALUE OF EARNINGS AND PRIVATE INCOME.

DANZIGER AND GOTTSCHALK NOTE THAT THE POVERTY-REDUCING IMPACT OF ELEVEN YEARS OF GROWTH (1967-1978) IN EARNINGS AND PRIVATE INCOME WAS CANCELLED BY THREE YEARS OF RAPID ECONOMIC DECLINE (1978-1981).

IN ADDITION TO ECONOMIC GROWTH, A STRONG ECONOMY MUST PROVIDE PRICE STABILITY. A LOW INFLATION RATE IS ESSENTIAL TO RETAINING THE PURCHASING POWER FOR LOW-INCOME PERSONS -- WHETHER WORKERS OR THOSE WHO ARE UNABLE TO WORK. ESPECIALLY FOR THESE PERSONS, THE REDUCED INFLATION RATE ACHIEVED BY THE REAGAN ADMINISTRATION HAS BEEN EXTREMELY IMPORTANT. IN THE ABSENCE OF BENEFIT INCREASES, REDUCED INFLATION LIMITS THE EROSION OF BENEFITS. IF THE INFLATION RATE OF 12.4 PERCENT IN EFFECT DURING THE LAST YEAR OF THE CARTER ADMINISTRATION HAD NOT ABATED, THE POVERTY THRESHOLD WOULD BE HIGHER AND IT

IS LIKELY THAT THE NUMBER OF PERSONS BELOW THE POVERTY LEVEL WOULD BE GREATER.

AS AN EXAMPLE OF THE BENEFICIAL EFFECTS OF THIS REDUCTION IN INFLATION, CONSIDER THE LEVEL OF BENEFITS TO FAMILIES ENTIRELY DEPENDENT ON AFDC AND OTHER PUBLIC ASSISTANCE. FROM 1970-1983, THE PURCHASING POWER OF AFDC BENEFITS DECLINED MORE THAN 30 PERCENT BECAUSE INFLATION INCREASED THE COST OF LIVING SUBSTANTIALLY BEYOND THE MEANS OF STATE AND LOCAL GOVERNMENTS TO KEEP PACE. THE LARGEST DECLINE OCCURRED BETWEEN 1977 AND 1981 WHEN THE REAL VALUE OF BENEFITS FELL 21 PERCENT. SINCE 1981, THE VALUE OF BENEFITS HAS CONTINUED TO DECLINE, BUT THE 6 PERCENT REDUCTION WAS CONSIDERABLY SMALLER THAN FOR ANY OTHER RECENT TWO-YEAR PERIOD. IN FACT, IF THE 12.4 PERCENT INFLATION RATE OF THE CARTER ADMINISTRATION HAD CONTINUED, THE VALUE OF REAL BENEFITS WOULD HAVE DECLINED 21 PERCENT RATHER THAN 6 PERCENT BETWEEN 1981 AND 1983.

COMPOSITION OF THE POOR

TO CONSIDER HOW GOVERNMENT MIGHT BEST ADDRESS POVERTY, WE NEED TO EXAMINE THE POOR IN MORE DETAIL. THE POOR ARE NOT AN HOMOGENEOUS GROUP -- THERE ARE DISTINCT

SUBGROUPS WHOSE CONDITIONS STEM FROM DIFFERENT CAUSES AND REQUIRE DIFFERENT SOLUTIONS. ALTHOUGH NO CATEGORIZATION SCHEME IS PERFECT, LET ME SUGGEST THAT THOSE THE CENSUS BUREAU DEFINES AS POOR CAN BE DIVIDED INTO FOUR MUTUALLY EXCLUSIVE GROUPS. THESE INCLUDE PERSONS IN HOUSEHOLDS HEADED BY:

- O THE ELDERLY, WHO ACCOUNT FOR 10.9 PERCENT OF THE POOR AND HAVE A POVERTY RATE OF 14.6 PERCENT;
- O SINGLE FEMALES WITH DEPENDENTS, WHO MAKE UP 32.8 PERCENT OF THE POOR AND HAVE A POVERTY RATE OF 42.1 PERCENT;
- O OTHER ADULTS AGE 25 TO 64, CONSTITUTING 52.3 PERCENT OF THE POOR WITH A 10.4 PERCENT POVERTY RATE; AND
- O YOUNG, SINGLE PEOPLE AGE 16 TO 24, ACCOUNTING FOR THE REMAINING 3.9 PERCENT OF THE POOR WITH A POVERTY RATE OF 32.0 PERCENT.

FOR EACH OF THESE GROUPS, THE EFFECTS OF ECONOMIC GROWTH AND GOVERNMENT PROGRAMS ON REDUCING POVERTY DIFFER

CONSIDERABLY, BUT OVERALL A STRONG ECONOMY HELPS ALL THE POOR BY INCREASING SOCIETY'S ABILITY AND WILLINGNESS TO AID THEM. TO THE ELDERLY POOR, FOR EXAMPLE, ECONOMIC GROWTH IS LESS IMPORTANT THAN GOVERNMENT SOCIAL INSURANCE PROGRAMS SUCH AS SOCIAL SECURITY AND MEDICARE, SINCE FEW OF THE ELDERLY ARE EMPLOYED AND DEPENDENT ON JOBS FOR THEIR INCOMES. FOR THEM, THE CRITICAL ELEMENT OF A HEALTHY ECONOMY IS STABLE PRICES SO THAT THEIR PRIVATE SAVINGS AND PENSIONS RETAIN THEIR PURCHASING POWER.

FOR THE OTHER GROUPS -- THE NON-ELDERLY POOR -- ECONOMIC GROWTH IS CRITICAL, BECAUSE THAT IS THE WAY OUT OF POVERTY FOR THEM, WHILE GOVERNMENT PROGRAMS CAN AND SHOULD HAVE ONLY A LIMITED, TEMPORARY EFFECT. THE LIMITED, TEMPORARY NATURE OF GOVERNMENT PROGRAMS IS NECESSARY TO MAINTAIN ADEQUATE INCENTIVES TO ACHIEVING SELF-SUFFICIENCY. FOR FEMALE-HEADED FAMILIES FOR INSTANCE, MEANS-TESTED WELFARE PROGRAMS SUCH AS AFDC, MEDICAID, FOOD STAMPS, AND HOUSING ASSISTANCE CAN PROVIDE AN ADEQUATE STANDARD OF LIVING, BUT THESE BENEFITS WERE INTENDED TO TIDE PEOPLE OVER A TEMPORARY SETBACK, NOT PROVIDE A PERMANENT INCOME. SIMILARLY, YOUNG SINGLE AND OTHER ADULTS CAN BENEFIT FROM FOOD STAMPS, EDUCATIONAL

ASSISTANCE, JOB TRAINING PROGRAMS, AND UNEMPLOYMENT INSURANCE, AND THESE EFFORTS ARE EXPECTED TO LEAD THEM BACK INTO THE LABOR MARKET.

POVERTY TRENDS

BEFORE DISCUSSING RECENT POVERTY CHANGES FOR EACH OF THE FOUR GROUPS, I WOULD LIKE TO MAKE ONE OBSERVATION CONCERNING THE RATE ITSELF: ONLY CASH INCOME IS CONSIDERED WHEN MEASURING POVERTY, THE VALUE OF NON-CASH BENEFITS IS IGNORED. IN 1982, BENEFITS UNDER THE MAJOR MEANS-TESTED IN-KIND PROGRAMS OF FOOD STAMPS, CHILD NUTRITION, MEDICAID, HOUSING ASSISTANCE, AND ENERGY ASSISTANCE TOTALED $56 BILLION. THIS WAS MORE THAN DOUBLE THE $24 BILLION SPENT FOR THE CASH WELFARE PROGRAMS OF AFDC AND SSI. FURTHERMORE, SINCE 1970, SPENDING IN REAL TERMS FOR IN-KIND PROGRAMS INCREASED 325 PERCENT WHILE SPENDING ON CASH BENEFITS DECLINED SLIGHTLY. THIS TREMENDOUS GROWTH IN IN-KIND PROGRAMS HAS TANGIBLY RAISED THE LIVING STANDARDS OF MANY LOW-INCOME AMERICANS. EXCLUDING THESE BENEFITS UNDERESTIMATES THE OVERALL EFFECT ON THE POVERTY RATE OF GOVERNMENT PROGRAMS DIRECTED TOWARD LOW-INCOME PERSONS. LAST WEEK, THE CENSUS BUREAU REPORTED THAT IF IN-KIND BENEFITS WERE INCLUDED IN

COMPUTING THE 1982 FIGURES, THE POVERTY RATE WOULD BE REDUCED BETWEEN 9 AND 33 PERCENT, DEPENDING ON THE BENEFITS COUNTED AND THE METHOD USED TO COUNT THEM.

THE ELDERLY

THE 1982 REPORT ON POVERTY IN AMERICA CONTAINS SOME VERY GOOD NEWS WITH RESPECT TO THE ELDERLY: THE POVERTY GAP BETWEEN THE ELDERLY AND ALL OTHER AMERICANS HAS BEEN CLOSED. FOR THE FIRST TIME SINCE STATISTICS WERE GATHERED THE POVERTY RATE FOR THE ELDERLY IS LOWER THAN THE OVERALL RATE. THE POVERTY RATE AMONG THE ELDERLY HAS FALLEN A DRAMATIC 60 PERCENT SINCE 1959, AND IN 1982 IT DROPPED BELOW THE RATE FOR THE NON--ELDERLY. SOCIAL INSURANCE PAYMENTS (PRINCIPALLY RETIREMENT BENEFITS) ALONG WITH MEANS-TESTED CASH BENEFITS (PRIMARILY SSI) AND MEANS-TESTED IN-KIND BENEFITS COMBINE TO REDUCE THE POVERTY RATE FOR ELDERLY FAMILIES FROM 68 PERCENT (THE POVERTY RATE FOR ELDERLY FAMILIES IN A GIVEN MONTH IF THERE WERE NO GOVERNMENT AID) TO 7 PERCENT. THE NETWORK OF SOCIAL TRANSFER PROGRAMS BENEFITING THE ELDERLY HAS PROFOUNDLY REDUCED THE INCIDENCE OF POVERTY AMONG THE ELDERLY.

AS A RESULT OF RECENT ACTIONS BY THE ADMINISTRATION AND CONGRESS, THESE TRANSFER PROGRAMS WILL CONTINUE TO SERVE AS A MAJOR TOOL FOR ALLEVIATING POVERTY AMONG THE ELDERLY. THE SOCIAL SECURITY SYSTEM HAS BEEN PLACED ON SOUND FINANCIAL FOOTING, AND SSI BENEFITS FOR THOSE SUFFERING FINANCIAL HARDSHIP HAVE BEEN RAISED AND ELIGIBILITY EXPANDED. PAYMENTS FROM THESE PROGRAMS ARE INDEXED TO THE COST OF LIVING WHICH PROTECTS BENEFICIARIES FROM ANY REAL LOSS IN BENEFITS. WE EXPECT TO SEE FURTHER IMPROVEMENT IN THE ECONOMIC WELL-BEING OF THE ELDERLY WITH THE MATURATION OF THE PRIVATE PENSION SYSTEM AND INCREASED SAVINGS DUE TO ENACTED TAX REFORMS. FOR A LONG TIME, MANY PEOPLE LIVED IN FEAR OF SPENDING THEIR LATER YEARS STRUGGLING TO SURVIVE. FINALLY, THE LIKELIHOOD OF AMERICANS LIVING THEIR LAST YEARS IN POVERTY IS GREATLY REDUCED.

ADULTS AGE 25 TO 64 AND YOUNG PEOPLE AGE 16 TO 24

OVER THE PAST 23 YEARS, TWO GROUPS (PERSONS IN HOUSEHOLDS HEADED BY ADULTS AGE 25 TO 64 OR BY YOUNG PEOPLE AGE 16 TO 24) EXPERIENCED SIGNIFICANT REDUCTIONS IN THEIR

POVERTY RATES. SINCE THE LATE 1970'S, HOWEVER, THERE HAS BEEN A TEMPORARY REVERSAL IN THEIR PROGRESS AGAINST POVERTY.

THE TRENDS IN THE POVERTY RATES OF THESE GROUPS CLOSELY PARALLEL CHANGES IN AGGREGATE ECONOMIC CONDITIONS, PARTICULARLY WHEN FEMALE-HEADED FAMILIES ARE EXCLUDED. FROM 1959 TO 1966, THE ECONOMY GREW AT A RAPID PACE. THE POVERTY RATE OF THE NON-ELDERLY, EXCLUDING FEMALE-HEADED FAMILIES, FELL AT AN ANNUAL RATE OF 8.6 PERCENT. FROM 1966 TO 1973, THE ECONOMY GREW, BUT AT A SOMEWHAT SLOWER ANNUAL RATE, AND LIKEWISE, THE MEASURED RATES OF POVERTY CONTINUED THEIR DOWNWARD TREND AT A SOMEWHAT SLOWER RATE. THROUGHOUT THE REMAINDER OF THE 1970'S AND IN THE EARLY 1980'S, THE ECONOMY GREW AT A SLUGGISH RATE AND THE POVERTY RATES GREW MARKEDLY. IN EACH OF THE THREE RECESSIONS THAT OCCURRED DURING THE PERIOD BETWEEN 1972 AND 1982, THE INCIDENCE OF POVERTY IN THESE TWO GROUPS ROSE. THESE PATTERNS CLEARLY SUGGEST THE IMPORTANCE OF ECONOMIC CONDITIONS TO THE INCIDENCE OF NON-ELDERLY POVERTY.

FEMALE-HEADED FAMILIES

THE NUMBER OF FEMALE-HEADED FAMILIES HAS INCREASED DRAMATICALLY. IN 1970, THERE WERE 6 MILLION OF THESE FAMILIES. BY 1980, THIS NUMBER INCREASED NEARLY 50 PERCENT TO 9 MILLION AND REACHED NEARLY 9 1/2 MILLION IN 1982. THE PROPORTION OF ALL FAMILIES HEADED BY WOMEN WAS 11.4 PERCENT IN 1970 AND ROSE TO 15.4 PERCENT IN 1982. KEY FACTORS IN THIS INCREASE WERE THE RISING DIVORCE RATE AND THE INCREASED INCIDENCE OF OUT-OF-WEDLOCK BIRTHS: FROM 1970 TO 1982, THE DIVORCE RATE ROSE FROM 47 TO 100 PER 1000 MARRIED COUPLES AND THE PERCENT OF BIRTHS TO UNWED MOTHERS ROSE FROM 11 PERCENT IN 1970 TO 17 PERCENT IN 1979.

WHILE THE AGGREGATE NUMBER AND PROPORTION OF SINGLE-PARENT FAMILIES HEADED BY WOMEN GREW DRAMATICALLY, THEIR LIKELIHOOD OF BEING IN POVERTY INCREASED ONLY SLIGHTLY. FROM 1970 TO 1980 THE POVERTY RATE FOR PERSONS IN THIS TYPE FAMILY REMAINED AROUND 40 PERCENT. DESPITE THE RECESSION, THE POVERTY RATE FOR THIS GROUP ROSE ONLY SLIGHTLY IN 1981 TO 40.4 PERCENT AND A BIT MORE AGAIN IN 1982 TO 42.1 PERCENT. MOST INDIVIDUAL FEMALE-HEADED FAMILIES ARE NOT LOSING GROUND IN THEIR STRUGGLE

TO STAY OUT OF POVERTY, THE GROWING NUMBER OF FEMALE-HEADED FAMILIES MEANS THAT THE NUMBER OF SUCH FAMILIES IN POVERTY WILL INCREASE UNTIL THE RATE OF POVERTY IS REDUCED.

FOCUS ON AFDC POPULATION

THE LARGE INCREASE IN THE NUMBER OF FEMALE-HEADED FAMILIES AND THEIR HIGH INCIDENCE OF POVERTY FOCUSES ATTENTION ON THE PROGRAM DESIGNED TO HELP THEM: THE AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAM (AFDC). ONE IMPORTANT EFFECT OF THE INCREASED NUMBER OF SINGLE-PARENT FAMILIES HEADED BY WOMEN HAS BEEN THE GROWTH OF THE AFDC PROGRAM SINCE 1960. AT THE BEGINNING, THE PROGRAM'S BASIC PURPOSE WAS TO ASSIST SINGLE-PARENT FAMILIES WITH NO MEANS OF SUPPORT. WITH THE INCREASE IN WORK ACTIVITY OF WOMEN AND ENACTMENT OF LIBERALIZATIONS IN INCOME DISREGARDS, THE PROGRAM EXPANDED IN 1969 TO PROVIDE INCOME SUPPLEMENTS TO FAMILIES WITH A LOW-INCOME WORKER. IN 1970, TOTAL FEDERAL EXPENDITURES FOR THE AFDC PROGRAM WERE $2.8 BILLION; IN 1982, THE FEDERAL EXPENDITURES WERE $8 BILLION.

IN OBRA AND TEFRA, SEVERAL CHANGES WERE ENACTED TO ELIMINATE BENEFITS TO FAMILIES WITH INCOMES ADEQUATE TO MEET THEIR BASIC NEEDS, TO REDUCE BENEFITS TO THOSE FAMILIES WITH SOURCES OF INCOME NOT PREVIOUSLY COUNTED, AND TO ENSURE THAT FAMILIES CAPABLE OF WORKING TO MEET THEIR EXPENSES WOULD BE REQUIRED TO DO SO AND ASSISTED ALONG THE WAY. MOST OF THE CHANGES AFFECTED AFDC HOUSEHOLDS WITH EARNINGS, AND IT WAS PREDICTED BY CRITICS THAT THESE CHANGES (IN PARTICULAR, THOSE TO THE EARNED INCOME DISREGARD) WOULD LEAD WELFARE RECIPIENTS TO QUIT THEIR JOBS AND RELY ENTIRELY ON WELFARE. SUCH BEHAVIOR WOULD HAVE INCREASED GOVERNMENT COSTS AS WELL AS LONG-TERM WELFARE DEPENDENCY.

EVIDENCE FROM A NATIONAL SAMPLE OF WELFARE RECIPIENTS STUDIED BY THE RESEARCH TRIANGLE INSTITUTE AND FROM A SAMPLE OF WISCONSIN RECIPIENTS STUDIED BY RESEARCHERS AT THE UNIVERSITY OF WISCONSIN SUGGESTS THAT CRITICS WERE TOTALLY WRONG. FOR EXAMPLE, IN THE WISCONSIN STUDY, 80 PERCENT OF RECIPIENTS WHO LOST ALL BENEFITS AND 60 PERCENT OF RECIPIENTS WHOSE BENEFITS WERE REDUCED WERE WORKING AT THE SAME JOB 13 TO 17 MONTHS AFTER THE CHANGE IN BENEFITS.

ONE SHOULD NOTE THAT THIS JOB TENURE WAS OCCURRING WHEN WISCONSIN'S UNEMPLOYMENT RATE INCREASED FROM 8.7 PERCENT TO 13.5 PERCENT AND THEN FELL TO 10.2 PERCENT. IN BOTH THE WISCONSIN AND NATIONAL SAMPLES, LESS THAN 18 PERCENT OF THOSE WHO LOST BENEFITS WERE RECEIVING AFDC PAYMENTS A YEAR LATER; THIS IS NO GREATER THAN THE RATE AT WHICH WELFARE RECIPIENTS WHO LEFT THE ROLLS RETURNED IN THE YEAR PRIOR TO THE OBRA CHANGES. IN ADDITION, THE WISCONSIN RECIPIENTS WHO LOST ALL AFDC BENEFITS AND WERE NOT RECEIVING ASSISTANCE 13 TO 17 MONTHS LATER, REALIZED AVERAGE WAGE INCREASES OF 10 TO 17 PERCENT.

OTHER LEGISLATIVE CHANGES WERE MADE IN AFDC TO ASSURE THAT ALL INCOME AND RESOURCES WOULD BE COUNTED. LIKE THE DISREGARD CHANGES, THESE IMPROVED PROGRAM EQUITY AND FOCUSED BENEFITS ON THOSE MOST IN NEED.

OVERALL, THESE CHANGES HAD POSITIVE EFFECTS ON THE PROGRAMS AND ON FAMILIES MOST IN NEED. THE PROGRAM WAS RESTORED TO ONE THAT PROVIDED RELIEF TO FAMILIES WHEN THEY COULD NOT PROVIDE FOR THEMSELVES. SAVINGS FROM THESE CHANGES PROVIDED STATES ADDITIONAL FUNDS WITH WHICH THEY COULD INCREASE BENEFITS TO THOSE WHO

ARE FACED TO RELY ON GOVERNMENT ASSISTANCE. SINCE OCTOBER 1981 WHEN OBRA TOOK EFFECT, 37 STATES HAVE INCREASED THEIR AFDC NEED OR PAYMENT STANDARDS.

CURRENT AND FUTURE POLICY DIRECTIONS

IN ADDITION TO THE ONGOING POLICY OF THIS ADMINISTRATION TO STRENGTHEN THE ECONOMY, THIS DEPARTMENT IS PURSUING TWO MAJOR INITIATIVES THAT AID NEEDY FAMILIES. THE FIRST IS INCREASED EMPHASIS ON WORK EXPERIENCE AND JOB SEARCH FOR WELFARE RECIPIENTS, AND THE SECOND IS IMPROVED ENFORCEMENT OF CHILD SUPPORT.

EMPHASIZE WORK EXPERIENCE AND JOB SEARCH

CLEARLY, THE MOST DIRECT WAY TO REDUCE POVERTY IS THROUGH EMPLOYMENT. THE REAGAN ADMINISTRATION IS COMMITTED TO HELPING WELFARE RECIPIENTS OBTAIN THE JOB TRAINING AND WORK EXPERIENCE NECESSARY TO OBTAIN JOBS AND REAP THE BENEFITS OF ECONOMIC RECOVERY. TO THIS END, THE ADMINISTRATION HAS ESTABLISHED SEVERAL NEW PROGRAMS.

FIRST, WE HAVE PROMOTED STATE USE OF JOB SEARCH PROGRAMS FOR AFDC AND FOOD STAMP APPLICANTS AND RECIPIENTS. AS PART OF THE REAGAN PROGRAM, CONGRESS ENACTED LEGISLATION THAT PERMITS STATES TO REQUIRE AFDC APPLICANTS TO PARTICIPATE IN JOB SEARCH. MANY STATES NOW REQUIRE EMPLOYABLE ADULTS TO PARTICIPATE IN THESE PROGRAMS WHICH MOTIVATE AND TRAIN PARTICIPANTS TO SECURE JOBS. TEN STATES ALREADY HAVE ESTABLISHED JOB SEARCH PROGRAMS AND AN EQUAL NUMBER ARE CONSIDERING DOING SO.

SECOND, THIS ADMINISTRATION ESTABLISHED THE COMMUNITY WORK EXPERIENCE PROGRAM (CWEP) IN WHICH STATES HAVE THE OPTION OF REQUIRING AFDC RECIPIENTS TO PARTICIPATE IN A WORK EXPERIENCE PROGRAM IN RETURN FOR RECEIVING THEIR GRANTS. TWENTY-TWO STATES NOW HAVE THESE PROGRAMS. OTHERS HAVE PARTICIPATED IN SIMILAR DEMONSTRATION PROGRAMS FOR FOOD STAMP RECIPIENTS. WE BELIEVE CWEP PROVIDES AN OPPORTUNITY FOR WELFARE RECIPIENTS WHO HAVE NEVER WORKED OR WHO HAVE BEEN OUT OF THE LABOR MARKET FOR A TIME TO ESTABLISH GOOD WORK HABITS AND GAIN WORK EXPERIENCE THAT WILL HELP THEM TO FIND AND KEEP A JOB.

FINALLY, THE ADMINISTRATION IS ENCOURAGING STATES TO EXPERIMENT WITH PROGRAMS TO DIVERT WELFARE GRANTS TO

WAGES -- CALLED "GRANT DIVERSION." THESE PROGRAMS PERMIT A STATE TO TAKE THE AFDC GRANT THAT WOULD BE PAID TO A FAMILY AND USE IT TO SUBSIDIZE THE WAGES OF THE FAMILY HEAD FOR A LIMITED PERIOD OF TIME. EMPLOYERS AGREE TO HIRE THE PARTICIPANT AT FULL WAGES AT THE END OF THE SUBSIDY PERIOD. THIS PROGRAM PROVIDES TRAINING, WORK EXPERIENCE AND A GUARANTEED TRANSITION INTO A JOB.

WHILE THE PROGRAMS I HAVE DISCUSSED ARE CURRENTLY OPTIONAL FOR THE STATES, THE ADMINISTRATION HAS PROPOSED TO MAKE PARTICIPATION IN JOB SEARCH PROGRAMS MANDATORY FOR ALL AFDC APPLICANTS AND RECIPIENTS. THE PACKAGE NOW BEFORE THE CONGRESS ALSO WOULD REQUIRE ALL STATES TO ESTABLISH WORK EXPERIENCE PROGRAMS (CWEP) FOR AFDC AND FOOD STAMP RECIPIENTS.

WE HAVE ALSO REQUESTED PERMANENT AUTHORITY TO PERMIT STATES TO USE GRANT DIVERSION IN PLACE OF THE CURRENT AUTHORITY THAT PERMITS THESE PROGRAMS ONLY IN CONJUNCTION WITH A DEMONSTRATION.

THE ADMINISTRATION'S ALTERNATIVES ARE NOT GEARED TO WELFARE RECIPIENTS ALONE: THE JOB TRAINING PARTNERSHIP

ACT (JTPA) ENACTED LAST YEAR, CREATES A NEW PROGRAM FOR TRAINING THE DISADVANTAGED FOR JOBS. UNLIKE ITS PREDECESSOR, CETA, WHICH CREATED MANY PUBLIC SERVICE JOBS, JTPA EMPHASIZES SHORT-TERM TRAINING TO ENABLE PARTICIPANTS TO OBTAIN JOBS. WELFARE RECIPIENTS MUST BE SERVED IN PROPORTION TO THEIR NUMBERS AMONG THE DISADVANTAGED POPULATION. THIS PROGRAM, NOW UNDERWAY IN ALL STATES, IS DESIGNED TO HELP ALL DISADVANTAGED WORKERS -- INCLUDING THOSE DISPLACED BY NEW TECHNOLOGY.

THE ADMINISTRATION'S ENTERPRISE ZONE PROPOSAL DESIGNED TO STIMULATE PRIVATE SECTOR INVESTMENT, NEW JOBS, AND NEIGHBORHOOD REVITALIZATION IS ANOTHER PROGRAM THAT WOULD HELP THE ECONOMICALLY DISADVANTAGED.

STRENGTHEN CHILD SUPPORT ENFORCEMENT

A KEY FACTOR CONTRIBUTING TO THE POVERTY OF FEMALE-HEADED FAMILIES IS THE LACK OF CHILD SUPPORT FROM ABSENT FATHERS. A RECENT CENSUS BUREAU STUDY SHOWED THAT IN 1981, CHILD SUPPORT ORDERS EXISTED FOR ONLY 59 PERCENT OF THE FAMILIES WITH ABSENT PARENTS (5 MILLION OUT OF 8.4 MILLION). OF THOSE 5 MILLION FAMILIES WITH SUPPORT ORDERS, THE FULL AMOUNT OF SUPPORT DUE WAS PAID IN ONLY 47 PERCENT OF THE CASES. NEARLY $4 BILLION OF SUPPORT DUE TO CHILDREN WENT UNPAID. IF SUPPORT ORDERS WERE OBTAINED FOR THE 4.8 MILLION FAMILIES THAT

DO NOT HAVE THEM, THE AMOUNT OF SUPPORT PAID WOULD INCREASE SUBSTANTIALLY.

TO ADDRESS THIS PROBLEM, THE ADMINISTRATION HAS PROPOSED LEGISLATION THAT WILL ENCOURAGE STATES TO PURSUE AND COLLECT SUPPORT PAYMENTS MORE AGGRESSIVELY. OUR PROPOSAL WOULD REQUIRE STATES TO USE COLLECTION PRACTICES THAT HAVE PROVEN EFFECTIVE IN ORDER TO ENSURE THAT MONEY DUE AS ORDERED IS PAID.

IN ADDITION, OUR CHILD SUPPORT PROPOSAL CHANGES THE FEDERAL FINANCING OF THE PROGRAM TO REWARD STATES WITH GOOD PROGRAMS AND HIGH LEVELS OF COLLECTIONS. THE AMOUNT OF THE INCENTIVE PAYMENTS AVAILABLE TO STATES WOULD INCREASE AND WOULD BE BASED BOTH ON HOW MUCH SUPPORT STATES COLLECT AND THE EFFICIENCY OF THE STATE'S OPERATION. ALSO, FOR THE FIRST TIME, STATES WOULD RECEIVE INCENTIVE PAYMENTS BASED ON THEIR EFFORTS ON BEHALF OF NON-WELFARE CHILDREN.

WITH ENACTMENT OF THESE PROPOSALS, WE EXPECT THAT CHILD SUPPORT PAYMENTS FOR BOTH WELFARE AND NON-WELFARE CHILDREN WILL INCREASE. FOR WELFARE CHILDREN, WE EXPECT MORE THAN A 40 PERCENT INCREASE IN COLLECTIONS FROM 1982

TO 1986 AND FOR NON-WELFARE CHILDREN THE AMOUNT OF SUPPORT COLLECTED SHOULD NEARLY DOUBLE FROM $0.98 BILLION IN 1982 TO $1.8 BILLION IN 1986.

FUTURE POLICY DIRECTIONS

A STUDY FUNDED BY MY OFFICE AND COMPLETED IN JUNE 1983 GREATLY INCREASED OUR KNOWLEDGE OF WHY PEOPLE GO ON AND OFF THE WELFARE ROLLS AND HAS PROVIDED MANY INSIGHTS FOR FUTURE DIRECTIONS IN WELFARE POLICY. THE STUDY, CONDUCTED BY MARY JO BANE AND DAVID ELLWOOD OF HARVARD UNIVERSITY, DEALT WITH THREE BROAD SETS OF QUESTIONS RELEVANT TO THE ISSUES OF WELFARE DEPENDENCY AND SELF-SUPPORT:

- HOW LONG DO WOMEN STAY ON AFDC?
- WHAT ARE THE CHARACTERISTICS OF THOSE WHO RECEIVE WELFARE INCOME FOR RELATIVELY LONG PERIODS OF TIME?
- HOW DO WOMEN ESCAPE-WELFARE?

THEIR FINDINGS SUGGEST A NUMBER OF IMPORTANT ISSUES TO FACE IN DEVISING POLICY TO IMPROVE THE AFDC PROGRAM. FIRST, LONG-TERM WELFARE DEPENDENCY EXISTS AND REQUIRES SERIOUS ATTENTION IF WE EXPECT TO DECREASE PROGRAM COSTS AND INCREASE THE SELF-RELIANCE OF RECIPIENTS. ALTHOUGH MOST OF THE WOMEN WHO GO ON AFDC HAVE SHORT SPELLS, THE BULK OF PERSON-YEARS OF AFDC RECEIPT AND THE BULK OF AFDC EXPENDITURES ARE ACCOUNTED FOR BY WOMEN WHO HAVE SPELLS OF EIGHT YEARS OR MORE. THE STUDY SHOWED THAT WOMEN WHO RECEIVE WELFARE FOR AT LEAST TWO YEARS ARE QUITE LIKELY TO BE LONG-TERM RECIPIENTS. FURTHER, IT IDENTIFIES CHARACTERISTICS OF LONG-TERM RECIPIENTS. FOR EXAMPLE, BANE AND ELLWOOD FOUND THAT UNMARRIED WOMEN WITH CHILDREN, NON-WHITES, AND HIGH-SCHOOL DROPOUTS ARE MUCH MORE LIKELY THAN OTHERS TO HAVE LONG SPELLS OF WELFARE.

SECOND, ANOTHER IMPORTANT FINDING SUGGESTS THAT EXISTING POLICIES DESIGNED TO HELP MOTHERS WORK MAY HAVE BEEN TOO NARROWLY TARGETED IN THE PAST. THE STUDY CONCLUDED THAT IT IS NOT TRUE THAT WOMEN WITH YOUNG CHILDREN ARE MUCH LESS LIKELY THAN OTHER MOTHERS TO EARN THEIR WAY OFF WELFARE. IN FACT, TWO-THIRDS OF WOMEN WHO LEAVE WELFARE THROUGH WORK HAVE A CHILD UNDER AGE 6.

AT THE SAME TIME, HOWEVER, THE NUMBER OF CHILDREN SIGNIFICANTLY INCREASES A WOMEN'S LENGTH OF TIME ON WELFARE.

CONSISTENT WITH THE FINDINGS OF THIS STUDY, HHS HAS GRANTED WAIVERS TO FOUR STATES TO PERMIT THEM TO REQUIRE MOTHERS WITH CHILDREN AGES 3 TO 6 TO PARTICIPATE IN WORK ACTIVITIES. EARLY INDICATIONS CONFIRM THAT THESE WOMEN CAN SUCCEED IN OBTAINING EMPLOYMENT. WE ARE ALSO PROVIDING FUNDING TO A DEMONSTRATION THAT PAIRS TEENAGE MOTHERS AND PREGNANT TEENAGERS WITH OLDER WOMEN WHO ACT AS ROLE MODELS TO ENCOURAGE THESE YOUNG WOMEN TO CONTINUE THEIR EDUCATION AND TO RECEIVE OTHER SERVICES THAT WILL AID THEM IN BECOMING SELF-SUPPORTING. FURTHER RESEARCH ON WELFARE DEPENDENCY IS ALSO UNDERWAY.

SUMMARY

IN CONCLUSION, GOVERNMENT ASSISTANCE IS ESSENTIAL TO ASSURE THAT THOSE WHO GENERALLY CANNOT WORK TO SUPPORT THEMSELVES, INCLUDING MANY ELDERLY, DO NOT LIVE IN POVERTY. BUT, FOR PEOPLE CAPABLE OF WORKING, GOVERNMENT AID SHOULD NOT SUBSTITUTE FOR JOBS. RATHER THAN EXPANDING GOVERNMENT PROGRAMS TO HELP FAMILIES IN WHICH THERE IS AN ADULT WHO CAN WORK, WE NEED TO STRENGTHEN THE

ECONOMY SO THAT JOBS AND ADVANCEMENT OPPORTUNITIES ARE AVAILABLE TO THOSE WORKERS. FOR WELFARE RECIPIENTS, WE NEED STRONG WORK PROGRAMS THAT PREPARE RECIPIENTS BOTH TO ENTER THE JOB MARKET AND TO BECOME SELF-SUPPORTING. FOR WOMEN RAISING CHILDREN ON THEIR OWN, WE NEED TO ASSURE THAT ABSENT FATHERS FULFILL THEIR BASIC PARENTAL RESPONSIBILITY TO SUPPORT THEIR CHILDREN.

IF WE CAN ACCOMPLISH THESE GOALS, GOVERNMENT ASSISTANCE WILL RIGHTFULLY BE TARGETED TO THOSE WHO ARE NOT CAPABLE OF WORKING AND HAVE NO OTHER PRIVATE MEANS OF SUPPORT. WITH FEWER PEOPLE RELYING ON GOVERNMENTAL ASSISTANCE, BENEFITS COULD BE INCREASED WITHOUT PLACING ADDITIONAL STRAIN ON GOVERNMENT RESOURCES.

I BELIEVE WE ALL SHARE THE SAME ULTIMATE GOAL -- THAT NO PERSON IN THIS COUNTRY LIVE IN POVERTY. HOWEVER, EVERY BENEFIT HAS ITS COST. WITH A DRAGGING ECONOMY, EVERYONE SUFFERS. CONVERSELY, A STRONG ECONOMY BENEFITS EVERYONE. ECONOMIC RECOVERY, WHICH THIS ADMINISTRATION IS ACCOMPLISHING, IS THE FOUNDATION ON WHICH A REDUCTION

IN POVERTY CAN BE BUILT. IT IS THE ADMINISTRATION'S GOAL TO RESTORE THE ECONOMY TO VIBRANT HEALTH -- AND TO MAKE SURE THAT ALL OUR CITIZENS CAN PARTAKE OF THIS NATIONAL WELL-BEING.

Senator **Chiles**. Dr. Rubin, I understand you have a time problem; is that right?

Dr. **Rubin**. Yes, sir.

Senator **Chiles**. Well, then, we will question you first and then take the other members of the panel. Chairman Domenici stepped out for a minute, and I think he will be back in just a minute, but I will start until he gets back.

PROPOSED FOOD STAMP CUTS NEVER ENACTED

Dr. Rubin, most of the food stamp cuts proposed by the Reagan administration were never enacted. According to the Congressional Budget Office, the cuts proposed last year would have reduced benefits for 79 percent of all households who are below half of the poverty line. A proposal of the 1982 budget would have reduced benefits for 43 percent of food stamp families with children who are below 50 percent of the poverty line. The cuts proposed by 1983 were even more pronounced, however. CBO reports that these proposals would have reduced or terminated benefits for 85 percent of all food stamp households, about 95 percent of whom are poor. Twenty-six percent of all elderly and disabled households receiving food stamps would have been terminated from the program, and 66 percent would have had their benefits reduced.

Were these proposals fair, and if they were fair, why aren't they included in this year's budget?

Dr. **Rubin**. Senator Chiles, as I indicated in my opening comments, I really cannot speak to programs of the U.S. Department of Agriculture. And not being familiar with the intimate details of the food stamp program nor the deliberations that preceded the submission of the President's budget for that Department, I am afraid I cannot answer your question.

Senator **Chiles**. Well, you do not have any opinion, then, as to whether we should—you have given a lot of testimony about how people fare, and they are not any worse off, and they are about the same, and yet, if we had had these kinds of Draconian cuts, you do not have any opinion at all as to whether they would be fair or not?

Dr. **Rubin**. Well, Senator, when one looks at the outcome of the process, the statistics that I have cited and that others have referred to, I think that they tell the story. I cannot comment, nor would I expect an official of the Department of Agriculture to comment on the Department of Health and Human Services budget.

Chairman **Domenici**. Senator Chiles, could I just ask for some kind of an understanding here as to where we are going.

Senator **Chiles**. Surely.

Chairman **Domenici**. We have some excellent witnesses that I think we should hear, and I must leave at about 7 or 8 minutes of. I cannot find a Senator to preside. We have every one chairing some meeting.

Senator **Chiles**. I understand your problem. I have to leave at 11 o'clock to chair a meeting for Senator Andrews.

Chairman **Domenici**. So you are going to chair for a Republican?

Senator **Chiles**. That is right.

Chairman **Domenici**. What I am hoping is that we could move quickly——

Senator **Chiles**. I understood Dr. Rubin had a time problem; that is why I was questioning him first, because I thought he had a problem.

Chairman **Domenici**. Yes, but I do not think we are going to be able to hear any of them if we do not decide to hear them, instead of asking questions. What I was hoping to do, is this—if we have questions of Dr. Rubin, we could submit them in writing, and let the other witnesses give their testimony before we have to break this up. I am even thinking of the incredible situation in which I might have to leave and let you preside, Senator Metzenbaum. [Laughter.]

Senator **Metzenbaum**. I have some good campaign rhetoric that I want to put forth.

Chairman **Domenici**. I understand that.

Senator **Metzenbaum**. We would have more time if the chairman had not made such a lengthy opening statement.

Chairman **Domenici**. We'd surely have had more time if I had stuck to my rule and just had Senators Chiles and Domenici make lengthy statements and let the others use 5 minutes. But now what we can do is—you have used 3 of your 5 minutes of questions in your opening statement, so why don't we just proceed.

Senator **Chiles**. If we are not going to get a chance to ask any more questions, and we may not by the time I have to leave, I would like to ask Dr. Rubin one or two short questions, if I may.

Chairman **Domenici**. Let's make them short.

Senator **Chiles**. He now says that he cannot answer for the U.S. Department of Agriculture on fairness. Do you have anything to do with energy assistance, or weather assistance?

Dr. **Rubin**. We administer the block grant of low-income energy assistance, yes, sir.

PRESIDENT PROPOSED CUTTING ENERGY ASSISTANCE BY ONE-THIRD

Senator **Chiles**. As a result of the current cold weather, we find that many of the States have already exhausted their funds for low-income energy assistance. Last year, the President proposed to cut the funding for the winter programs by one-third. Congress rejected that proposal. Had we accepted that request, what would these people be facing now with the fact that the energy assistance that is out there has already been exhausted?

Dr. **Rubin**. Well, Senator, there are three points I would like to make. No. 1, my understanding is that the total drawdown among the States is only 45 percent of the appropriated funds as of last week. Second, my understanding is that Mr. Stockman has come up with a supplemental appropriation for the low-income energy program. And finally, I think that our fiscal year 1985 budget submission is roughly $1.8 billion, which is substantially above the amount requested last year.

So I think we have addressed all of those issues.

Senator **Chiles**. That sounds a little strange to me. On the one hand, you are saying that the stocks are only drawn down by 45 percent, and on the other hand, you are patting yourself on the back and saying, "We have come back for a supplemental; we need more money." What I want to ask you on the third hand, if you will, is if you had cut the one-third that Congress refused to cut, would that have been fair?

Dr. **Rubin**. It would depend on where those allocations fell, Senator. The point about the 45 percent is that some States are clearly experiencing a very bad winter; some States are experiencing not as bad a winter as they have in the past. And there is some recognition of energy prices increasing, and therefore, the administration——

AMOUNT OF CUT SEEMED APPROPRIATE

Senator **Chiles**. Is a part of that recognition the fact that this is an election year? You did not propose any cuts this year. If a third was fairly cut last year, why haven't you proposed to cut a third this year?

Dr. **Rubin**. We believe that over the last several years $1.3 billion was an appropriate amount, even though it is less than what will be appropriated for this fiscal year.

Senator **Chiles**. Do you believe that the one-third cut that you proposed was fair for last year?

Dr. **Rubin**. We believe that the amount that we asked for last year was a number that was sufficient to meet the needs of the people that we needed to serve.

Senator **Chiles**. Why didn't you ask for that this year? Are there a third more people, or is it the point of time that has something to do with it?

Dr. **Rubin**. I cannot speak to the time, Senator. It seems to me that——

Senator **Chiles**. I quit. I can't get anything, Mr. Chairman.

Chairman **Domenici**. You have changed your mind before—I have not been able to find out when, and I do not even want to ask why.

Dr. Rubin, thank you very much for your appearance.

Dr. **Rubin**. Thank you.

Senator **Metzenbaum**. Mr. Chairman, since there seems to be some time constraints, I wonder if it might be appropriate to ask you to ask each witness to take 5 minutes.

Chairman **Domenici**. I am going to try that. The problem is that I think a couple of them are going to have difficulty with their remarks in 5 minutes, trying to make their points. But we do have their statements, so why don't we just proceed.

Dr. Norwood, Commissioner of the Bureau of Labor Statistics, would you proceed? We will make your testimony part of the record,[1] and if you can summarize it, we would greatly appreciate it.

STATEMENT OF DR. JANET L. NORWOOD, COMMISSIONER, BUREAU OF LABOR STATISTICS, U.S. DEPARTMENT OF LABOR

Dr. **Norwood**. Thank you, Mr. Chairman.

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[1] See p. 304.

I am obviously glad to be here to review some of the facts on the employment and price situation and how it might affect different groups of the population.

UNEMPLOYMENT HAS DECLINED BY NEARLY 3 MILLION

The country has now experienced 14 months of economic recovery. During this period, the proportion of the working age population with jobs has improved dramatically. Almost 4.2 million more people were working last month than in November 1982. Meanwhile, unemployment has declined by nearly 3 million.

Both the overall jobless rate and the civilian rate have dropped by 2.7 percentage points.

In order to understand the recovery, it is important to look at the recession phase that preceded it. The employment impact of the 1981–82 recession was primarily concentrated in the goods-producing sector of the economy—in manufacturing, especially durable goods, and in construction. These are the industries where male workers predominate.

It is for this reason that unemployment for men in the prime working ages increased more than for any other group. Unemployment rates for women in these two industry groups were as high as those for men, but relatively few women worked in construction and durable goods manufacturing. As a result, unemployment among prime working age women rose considerably less than for men.

Young workers aged 16 to 24, whose unemployment problems are more structural than cyclical, experienced a rise of about one-third in their level of unemployment during the 1981–82 recession.

The recession's effect on different racial groups can be looked at in more than one way. On the one hand, unemployment rose by about the same proportion for both blacks and whites over the course of the downturn, 53 versus 55 percent, respectively. On the other hand, this means that blacks were consistently more than twice as likely to be unemployed as whites throughout the recession.

Now, where do we stand after more than a year of recovery?

As of January 1984, the number of payroll jobs had surpassed the prerecession peak. But dramatic, interindustry differences are apparent. The service-producing sector, which includes all economic activity except mining, construction, and manufacturing, was relatively unscathed by the recession, having lost only 100,000 jobs. In the past 14 months, it has gained more than 1.5 million jobs.

GOODS-PRODUCING INDUSTRIES HURT BY RECESSION

Among goods-producing industries, however, the situation has been quite different. Construction has fared well. As of last month, construction jobs were back where they were before the recession began. Conversely, manufacturing industries, which lost over 2 million jobs during the recession, have regained only about half of them. Among the strongest employment growth areas has been auto manufacturing, where over 200,000 jobs have been regained. That is particular important because, as we know, auto manufacturing is so geographically concentrated. Lumber and wood products and electronic equipment manufacturing are some other industries that have experienced strong recent growth.

In marked contrast, after more than a year of improvements in other industries, the extent of the structural problems in steel manufacturing is quite apparent. At about 340,000, the January employment level in the blast furnace and basic steel industry had recovered virtually none of the recession job loss.

Just as men experienced the greatest increase in unemployment during the recession, their employment experience has improved the most during the recovery. The severity of the recession in those industries that I have already pointed to drove the unemployment rate for adult men more than a percentage point above that for adult women—a statistical rarity. However, by last month, the rate for men, at 7.3 percent, was only two-tenths of a point above that for women.

The employment situation for adult black men has improved considerably during the recovery period. Their employment has increased by more than 400,000, and their jobless rate has dropped from 20.7 percent to 14.8 percent. In addition, their employment-population ratio has risen by more than 3½ percentage points. Improvements for black women began in the middle of the year, and are still relatively modest.

The situation for black teenagers remains especially serious. Their jobless rate has straddled the 50-percent mark for over a year and a half, and long-term joblessness is a serious problem among black youth.

The combination of low labor force participation among black teens and their high rate of joblessness provides a very dramatic contrast. While almost half of the white teen population has jobs, only one-sixth of all black teenagers work

Senator **Metzenbaum**. Did you say only one-sixth of all black teenagers work?

UNEMPLOYMENT IS SEVERE PROBLEM FOR FAMILIES MAINTAINED BY WOMEN

Dr. **Norwood**. Yes, that is correct.

At the end of 1982, when unemployment hit its peak, more than 11 million persons were jobless, and nearly 10 million of them lived in families. In two-thirds of these families, someone else was working. In 9 out of 10 cases, at least 1 of the parents of an unemployed teenager had a job. Almost 8 out of 10 unemployed wives had someone in their family working. The likelihood of an unemployed husband having a working family relative has also increased markedly. Between 1977 and 1981, the proportion rose from 48 to 55 percent. It held about steady during the recession, and with recovery, resumed its upward course, reaching nearly 57 percent by the end of 1983.

Unemployment is a particularly severe problem for families maintained by women. Because there are generally few persons of working age in these families, there is very little likelihood that there are any employed persons present to cushion the effects of their joblessness.

The median annual pay for persons with some unemployment in 1982 was just $5,000. Their family income, however, averaged nearly $20,000. About one-third of the unemployed had family incomes of more than $25,000, and about one-quarter had family incomes below $10,000. Not surprisingly, the family income of women unemployed sometime during 1982 who maintained families was considerably lower, averaging less than $7,000.

With the growth in employment during the recovery period and a substantial reduction in the rate of inflation, the usual weekly earnings for families in constant dollars—that is, corrected for inflation—rose by 4.5 percent in 1983. In contrast, there has been an actual decline in real family earnings in each of the last several years.

CONTRASTING NATURE OF PRICE AND LABOR FORCE DATA

Now, I would like to make a few comments about consumer price data. I think it is important to understand, really, the contrasting nature of the price and the labor force data. Our labor force surveys are designed to allow us to focus specifically on the experience of subgroups of the population. Our official Consumer Price Indexes, on the other hand, measure the average experience of broadly defined groups of consumer units.

It has not yet been demonstrated that the variation in average inflation rates across population subgroups is sufficient to warrant fullscale, extremely expensive production of narrowly focused indexes. To the extent that variation across groups is limited, the recent behavior of the official CPI should be broadly applicable for evaluating the impact of inflation on different groups.

The Bureau of Labor Statistics staff has also done some research which applied CPI prices to expenditure patterns for particular groups. I would like briefly, first, to describe the general trend of inflation and then to review a few results of that research.

Clearly, the most important recent price development affecting economic welfare is the marked deceleration in the overall CPI which began in October 1981. The CPI increased at a seasonally adjusted annual rate of only 3.9 percent for the 27-month period ending in December 1983. This rate is well below the 11-percent increase recorded for the 12 months prior to October 1981, and is in fact the lowest rate since early 1973.

The current price slowdown is the third major deceleration in consumer prices since the generally rising spiral of inflation began almost 20 years ago. The price deceleration that occurred in the 27 months through December 1983 has been particularly apparent in the energy, shelter, and food components of the CPI. Advances in these items were, of course, responsible for most of the increases in the past decade.

The Index, excluding the energy, shelter, and food components, has also moderated, although not as substantially, rising at a 5.8-percent seasonally adjusted annual rate during the 27 months through December 1983, compared with a 9.6-percent increase for the 12 months ended in September 1981.

Grocery store food prices in the year before September 1981 had increased 5.5 percent, a rate half of that of the overall index. Further moderation brought that index to 1.9 percent for the 27-month period that I was discussing. The shelter component, which registered steep advances throughout most of the period from January 1978 through September 1981, has also fallen off sharply.

The January 1984 CPI, which we released last Friday, registered an increase of six-tenths of 1 percent, as grocery store food prices rose 2.4 percent. Surges in prices for beef, pork, poultry, fresh fruits, and fresh vegetables were primarily responsible. In view of the severe early winter weather, the outbreak of avian influenza, and the indirect effect of last summer's drought, the increase was not unexpected.

The January CPI is not inconsistent with the consensus forecast of an increase in the 5-percent range for consumer prices in 1984.

PRICE INDEXES BASED ON DIFFERENT CONSUMPTION PATTERNS

Now, it is interesting to ask whether there are any data to show that any particular group faces price experience that is higher or lower than the average. Our Bureau has undertaken research in recent years which may help to shed some light on these issues. I believe this research is of high quality, but I want to caution you, however, that it is experimental. Any conclusions it might suggest must be critically evaluated, because a more definitive analysis of these issues would require substantially more data and tests in a broader methodological framework.

This recent research is focused solely on the impact of different consumption patterns on measured price change. A very important limitation of this approach is that it uses the same price indexes for individual components—rent, housekeeping, food—for all consumer units. To the extent that different types of consumer units might purchase different qualities of goods and services, or shop in different outlets which exhibit different price trends, or even live in different areas which exhibit different price trends, our analysis might miss some of the variation in inflation rates across segments of the population.

I have attached to my testimony several tables which present experimental indexes for alternative population groupings.[1] We have from these tables, really, no evidence of a persistent differences among the inflation rates experienced by different groups of the population. The largest difference in index levels which we report is 1.2 index points, and that represents only 1.2 percentage points higher growth over 11 quarters.

Remembering that these measured differences are quite small in absolute size and may be, therefore, not really statistically significant, we find that when we compare price indexes based on different expenditure patterns for different income groups in table 2, that the index for middle-income consumers was slightly higher than that for either higher or lower income consumers, compared to the first quarter of 1979. The largest absolute difference occurs in the fourth quarter of 1981, just as prices started to decelerate. In this quarter, the price index is lowest for the lowest income quintile. By the fourth quarter of 1983, the variation in price indexes had diminished.

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[1] See p. 323.

Perhaps the best lesson from this table is that these indexes provide no evidence of a secular trend in the relative degree to which inflation affects different income groups.

There are other indexes presented in tables 3 and 4, which looked at households separated by the age of the reference person—that is, by age—and also by race.

Chairman DOMENICI. Dr. Norwood, could I ask, just for our own information, how close are you to completing your summary?

Dr. NORWOOD. Very close; one paragraph.

Chairman DOMENICI. All right. Proceed.

Dr. NORWOOD. I must emphasize that the indexes reported in these tables do not reflect all possible sources of differences and inflation experience which would need to be examined in determining the impact of inflation on different groups of the population. They do, however, embody expenditure patterns that vary very widely. Although a definitive conclusion must await additional research, it is probably safe to assume that the labor market experience of different population groups varies much more than the inflation experience.

Thank you very much.

Chairman DOMENICI. Thank you very much, Dr. Norwood.

[The prepared statement of Dr. Norwood follows:]

STATEMENT OF DR. JANET L. NORWOOD
COMMISSIONER
BUREAU OF LABOR STATISTICS
BEFORE THE COMMITTEE ON THE BUDGET
UNITED STATES SENATE

February 28, 1984

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to discuss with you developments in the country's employment and price situation over the past several years.

A. EMPLOYMENT

The country has now experienced 14 months of recovery. During this period, the employment-population ratio (the proportion of the working age population with a job) has improved dramatically -- by 1-1/2 percentage points. Almost 4.2 million more people were working last month than in November 1982. Meanwhile, unemployment has declined by nearly 3 million to 9.0 million persons. Both the overall jobless rate and the civilian rate have dropped by 2.6 percentage points.

In order to understand the recovery, it is important to look at the recession phase that preceded it. The employment impact of the 1981-82 recession was primarily concentrated in the goods producing sector of the economy, in manufacturing (especially in durable goods) and in construction. These are the industries where male workers predominate. It is for this reason that unemployment for men in the prime working ages -- 25 to 54 years -- increased more than for any other group, nearly doubling. Unemployment rates for women in these two industry groups were as high as those for men, but relatively few women work in construction and durable goods manufacturing. As a result, unemployment among prime working age women rose considerably less than for men (by about 50 percent). Young workers aged 16 to 24, whose unemployment problems are more structural than cyclical, experienced a one-third rise in their level of unemployment during the 1981-82 recession.

The effects of the group not included in these numbers -- older workers -- is somewhat more difficult to analyze. The jobless rates for older workers are lower than those for other labor force groups in part because many older workers can retire and leave the labor force when they become unemployed. When they do choose to look for work, the probability of their success in finding a job is considerably lower than that for younger workers. In any case, the evidence suggests that the rate of retirement has picked up during the last few years.

The recession's effect on different racial groups can be looked at in more than one way. On the one hand, unemployment rose by about the same proportion for both blacks and whites over the course of the downturn (53 versus 55 percent respectively). On the other hand, since blacks already had more unemployment, this means that blacks were consistently more than twice as likely to be unemployed as whites throughout the recession.

Unemployment statistics reflect two factors -- the flow into unemployment and the duration of unemployment. The median duration of unemployment rose from a low of about 6 weeks in mid-1981 to a high of almost 12 weeks in mid-1983. As of the latter date, about 1 in 4 unemployed workers had been looking for work for more than half a year Among primary metals and auto workers, the worst cases, well over half of all jobless had been out of work more than a half year.

Where do we stand after more than a year of recovery?

As of January 1983, the number of payroll jobs had surpassed the pre-recession peak. But dramatic inter-industry differences are apparent. The service producing sector, which includes all economic activity except mining, construction and manufacturing was relatively unscathed by the recession, having lost only about 100,000 jobs. In the past 14 months, it has gained more than 1-1/2 million jobs.

Among goods-producing industries, however, the situation has been quite different. Construction has fared well. Lower interest rates and pent-up demand have fueled a strong housing recovery. As of last month, construction jobs were back where they were before the recession began. Conversely, manufacturing industries, which lost over 2 million jobs during the recession, have regained only about half of them. Interestingly, though, factory hours are now well ahead of even the pre-recession levels. Among the strongest employment growth areas has been auto manufacturing, where over 200,000 jobs have been regained. This is particularly important because auto manufacturing is so geographically concentrated. Over the past year, improvements in both unemployment and personal income have been particularly dramatic in the industrial midwestern States. Despite the marked improvement, the auto industry, reflecting the changes set in during the late 1970's, was still producing in 1983 about 1.5 million units below 1979. Employment in the auto industry is 200,000 below the peak reached in that year. Lumber and wood products and electronic equipment manufacturing are other durable goods industries that have experienced strong recent growth.

In marked contrast, after more than a year of improvements in other industries, the extent of the structural problems in steel manufacturing is quite apparent. At about 340,000, the January employment level in the blast furnace and basic steel industry had recovered virtually none of the recession job loss. Although recovering somewhat, the machinery and fabricated metals industries are still well below pre-recession employment levels.

Just as men experienced the greatest increase in unemployment during the recession, their employment experience has improved the most during the expansion. The severity of the recession in those industries already discussed drove the unemployment rate for adult men more than a percentage point above that for adult women, a statistical rarity. However, by last month, the rate for men (7.3 percent) was only two-tenths of a point above that for women.

The employment situation for adult black men has improved considerably during the recovery period. Their employment has increased by more than 400,000, and their jobless rate has dropped from 20.7 to 14.8 percent. In addition, their employment-population ratio has risen by more than 3.5 percentage points. Improvements for black women which began in mid-1983 are still relatively modest.

The situation for black teenagers remains especially serious. Their jobless rate has straddled the 50 percent mark for over a year and a half, and long-term joblessness is a serious problem among black youth. The combination of low labor force participation among black teens and their high rate of joblessness provides a very dramatic contrast: While almost half of the white teen population has jobs, only one-sixth of all black teenagers work.

Up until this point, I have focused on the impact of changes in the economy on individuals or specific worker groups. Because family members often pool their earnings and support each other both financially and emotionally when out of work, it is also important to look at individual workers in a family context. Despite changes in living arrangements over the past several decades, most Americans continue to live in families, and many families have more than one worker. At the end of 1982, when unemployment hit its peak, more than 11 million persons were jobless, and nearly 10 million of them lived in families. In two-thirds of these families, someone else was working. Relatives in husband-wife families (typically teenage and young adult children) accounted for about a quarter of unemployed family members. In 9 out 10 cases, at least one of their parents had a job.

Unemployed wives are also likely to have an employed person in their family. In fact, in 1983, almost 8 out of 10 unemployed wives had someone in their family working.

As married women have entered the labor force in increasing numbers, the likelihood of an unemployed husband having a working family relative has also increased markedly. Between 1977 and 1981, the proportion rose from 48 to 55 percent. It held about steady during the recession and with recovery resumed its upward course, reaching nearly 57 percent by the end of 1983.

Unemployment is a particularly severe problem for families maintained by women. Because there are generally few persons of working age in these families, there is little likelihood that there are any employed persons to cushion the effects of their joblessness. Since data of this type first became available in 1977, the proportion of unemployed women who maintain families that include someone who is employed has never been much higher than 20 percent. Because the problem is largely structural in nature, the business cycle does not bring about substantial changes in this proportion.

The effect of the family employment cushion is illuminated by data on annual income. The median annual pay for persons with some unemployment in 1982 was just $5,000; their family income, however, averaged nearly $20,000. About one third of the unemployed had family incomes of more than $25,000, and about a quarter had family incomes below $10,000. Not surprisingly, the family income of women unemployed sometime during 1982 who maintained families was considerably lower, averaging less than $7,000.

Family earnings are highest in married-couple families, particularly where the unemployed person is neither the husband nor the wife. In those cases, median weekly earnings at the end of 1983 exceeded $550. When the wife was unemployed, weekly earnings averaged $367, and the average was $221 when the husband was unemployed. Thus, while husbands are no longer the mainstay of the market economy that they once were -- they constituted just 35 percent of the labor force in 1983, down from 52 percent in 1955 -- their employment situation still has a substantial impact on the well-being of their families.

The unemployment rate for married men has come down sharply during the recovery. From a high of 7.5 percent at the end of 1982, it dropped to 5.0 percent by January 1984, and the number of employed husbands increased by 1.2 million over the same time period.

Among married women, the jobless rate also declined from 8.3 to 6.0 percent, and the employment level increased by 1.0 million over the course of the recovery. Among women maintaining families on their own, the jobless rate has come down from 13.3 percent to a still very high 10.7 percent.

With the growth in employment during the recovery period and a substantial reduction in the rate of inflation, the usual weekly earnings for families in constant dollars (i.e., adjusted for inflation) rose by 4.5 percent in 1983. In contrast, there had been an actual decline in real family earnings in each of the last several years.

B. PRICES

To this point, I have reviewed the labor force experience of families and individuals during the recent recession and recovery. Although we have discussed earnings levels, an important additional ingredient in evaluating economic well-being is the purchasing power of these earnings. To do this, it is useful to look at the recent behavior of consumer prices. In this context, it is important, however, to be aware of the contrasting nature of BLS price and labor force data. Our labor force surveys are designed to allow us to focus specifically on the experience of subgroups of the population. Our official consumer price indexes, on the other hand, measure the average experience of broadly defined groups of consumer units. The Consumer Price Index for All Urban Consumers (CPI-U), for instance, reflects the experience of about 80 percent of the country's population, including wage earners, salaried workers, the self-employed, the unemployed, the retired, and others not in the labor force.

However, it has not yet been demonstrated that the variation in average inflation rates across population subgroups is sufficient to warrant full scale, extremely expensive, production of narrowly focused indexes. To the extent that variation across groups is limited, an analysis of the recent behavior of the official CPI should be broadly applicable for evaluating the impact of inflation on different groupa. The Bureau of Labor Statistics also has done some research which applies CPI prices to expenditure patterns for particular groups. I would like to briefly describe the general trend of inflation as measured in the CPI-U (and CPI-W) and then to review a few results of our research with experimental expenditure pattern.

Certainly, the most important recent price development affecting economic welfare is the marked deceleration in the overall CPI which began in October 1981. The CPI has increased at a seasonally adjusted annual rate of only 3.9 percent for the 27 month period ending in December 1983. This rate is well below the 11.0 percent increase recorded for the 12 months prior to October 1981 and is, in fact, the lowest rate since early 1973.

The current price slowdown is the third major deceleration in consumer prices since a generally rising spiral of inflation began almost 20 years ago. The early 1960's were characterized by rapid economic expansion with prices increasing at an annual rate of 1.3 percent for the 5-year period which ended in December 1965. Price pressures developed in the late 1960's, however, as the economic stimulus from expenditures for the Vietnam War was added to an economy already at nearly full employment. The rate of inflation in consumer prices rose from less than 2 percent in 1965 to over 6 percent in 1969.

The recession which began late in 1969 caused the rate of price increase to subside only partially, and much of that reduction was due to the impact of declining mortgage interest rates. In reaction to the failure of inflation to abate fully, a wage and price freeze was announced on August 15, 1971. The initial price freeze and subsequently Phase II controls were accompanied by a lower rate of inflation during the final months of 1971 and throughout 1972. Prices, however, started on an upward spiral in late 1973, coincident with the relaxation of controls in August and the oil embargo in October. Inflation rose to double-digit rates during 1974 and registered what was then the largest calendar year change in the history of the CPI, except for the inflationary periods directly associated with the two World Wars. During the recovery from the steep recession of 1973-75, inflation moderated substantially so that by the end of 1976, consumer prices were rising at an annual rate of less than 5 percent. With the economic expansion in 1977, prices accelerated moderately. Sharp increases in energy, food, and housing costs followed, pushing consumer price rises to unprecedented peacetime rates during 1979, 1980, and, indeed, for most of 1981.

The price deceleration that occurred in the 27 months through December 1983 has been particularly apparent in the energy, shelter, and food components of the CPI. Advances in these items were, of course, responsible for much of the increase in the CPI in the past decade. The index excluding the energy, shelter, and food components has also moderated, although not as substantially -- rising at a 5.8 percent seasonally adjusted annual rate during the 27 months through December 1983, compared with a 9.6 percent increase for the 12 months which ended in September 1981.

Energy costs rose at a 1.0 percent annual rate for the 27 months through December 1983, compared with a 12.7 percent advance in the preceding 12-month period. Although charges for gas and electricity continued to increase at double digit rates through 1982, they slowed down considerably in 1983, increasing only 4.1 percent. Prices for petroleum-based items, on the other hand, are now generally lower than in 1981. Gasoline and fuel oil prices declined from March 1981 through April 1982, following substantial increases in the first quarter of 1981 after announced price hikes by OPEC and domestic price decontrol. These sharp increases, along with a slowdown in economic activity, led to a reduction in the demand for oil and an over supply of petroleum. Sharp price increases in May through July of 1982 rekindled fear that the "glut" was over and that prices would continue upward. The price decline during the next 8 months (August 1982 - March 1983), however, eased this fear. The imposition of the 5 cents a gallon tax on April 1, 1983 halted the downward movement and, coupled with increased demand, resulted in monthly increases through August 1983. Since then, however, gasoline prices have resumed their downward path.

Both the 1973 and 1978 inflationary episodes were characterized by sharply increasing food prices. On the other hand, in both cases, food price declines preceded the overall slowdown in prices. For the 12-month period ended in September 1981, grocery store food prices had increased 5.5 percent, a rate one-half that of the overall index. Further moderation brought the seasonally-adjusted annual rate of increase in food prices to 1.9 percent for the September 1981 to December 1983 period.

The shelter component registered steep advances throughout most of the period from January 1978 through September 1981. Over the next 27 months, however, the rate of increase in this component fell off sharply -- rising at a seasonally-adjusted annual rate of 5.3 percent, compared with a 14.6 percent increase in the preceding 12 months period. Until January 1983 the CPI used an asset approach to measure shelter costs to homeowners. The asset treatment employed house prices, mortgage interest rates, property taxes, property increase, and maintenance and repair costs. The initial slowdown in the shelter component was principally due to the behavior of mortgage interest rates and house prices. In particular, the sharp drop in mortgage interest rates in December 1982 led to the largest decline in the CPI since November 1953. In January 1983, BLS introduced an improved measure of the shelter cost for homeowners in the CPI-U, using a rental equivalent approach. During 1983, shelter cost increases continued to moderate (4.7 percent).

The January 1984 CPI, which we released last Friday, registered an increase of 0.6 percent as grocery store food prices rose 2.4 percent. Surges in prices for beef, pork, poultry, fresh fruits, and fresh vegetables were primarily responsible. In view of the severe early winter weather, the outbreak of avian influenza, and the indirect effect of last summer's drought, the increase was not unexpected. Further increases in food prices -- particularly meat prices -- are forecast by the Department of Agriculture, which anticipates increases for 1984 in the 3 to 6 percent range. Energy prices declined in January as substantial decreases in prices for gasoline and natural gas more than offset the sharp increase in fuel oil prices. The shelter component of the CPI registered a 0.3 percent increase in January, about the same as the average monthly rise during the preceding 27 month period. Prices excluding food, energy, and shelter also rose slightly more in January than in other recent months. Restructuring of local telephone rates was a major factor in this January acceleration. The January CPI is not inconsistent with the concensus forecasts of an increase in the 5 percent range for consumer prices in 1984.

Although the factors I have just discussed are important determinants of inflation for all groups of the population, it is interesting to ask whether any particular groups faced price experiences that were higher or lower than average. The BLS has undertaken research in recent years which may help to shed some light on these issues. I believe that this research is of high quality, and I consider it to be the kind of experimental work which makes good use of the Bureau's expertise and access to data. I want to caution you, however, that it is experimental. Any conclusions it might suggest must be critically evaluated; a definitive analysis of these issues would require substantially more data and tests in a broader methodological framework.

The recent BLS research on variations in price indexes across households has focused solely on the impact of different consumption patterns on measured price change. In performing this analysis, we used the 1972-73 Consumer Expenditure Survey, which forms the expenditure basis for the current CPI, to compute individual CPI-type indexes for a large sample of consumer units. One important limitation of this approach is that it uses the same price indexes for individual components -- for example, rent, housekeeping services, and automobile maintenance -- for all consumer units. To the extent that different types of consumer units might purchase different qualities of goods and services or shop in different outlets which exhibit different price trends, our analysis might miss some of the variation in inflaiton rates across segments of the population. Collection of price data specific to the experience of particular groups of the population, however, is an extremely costly process which makes it expensive to produce group-specific price indexes which are methodologically comparable to the CPI.

Experimental indexes for alternative population groupings are presented in the tables attached to this testimony. In these experimental indexes, we have used the rental equivalence approach to measure shelter costs, so that the research indexes are not strictly comparable with either the CPI-U or CPI-W over the entire period. As the tables show, we have no evidence from this work of large, persistent differences among the inflation rates experienced by different groups of the population. The largest difference in index levels which we report occurs between "low" and "middle" income consumers in the fourth quarter of 1981. This difference is 1.2 index points, and represents only 1.2 percent higher growth over 11 quarters. By the fourth quarter of 1983, these two indexes differ by only 0.5 index points.

Remembering that these measured differences are quite small in absolute size, perhaps the most interesting variation is found in Table 2, where consumers are grouped by their position in the income distribution. Here we find that when we compare these price indexes based on different expenditure patterns with the first quarter of 1979, the index for middle income consumers was slightly higher than that for either higher or lower income consumers. The largest absolute difference occurs in the fourth quarter of 1981, just as prices started to decelerate. In this quarter, the price index is lowest for the lowest income quintile. By the fourth quarter of 1983, the variation in price indexes had diminished. But I emphasize that all of the differences in Table 2 are extremely small. Perhaps the best lesson from this table is that these indexes provide no evidence of a secular trend in the relative degree to which inflation affects different income groups.

The indexes reported in Tables 3 and 4 also present no real evidence of persistent differences between groups. In Table 3, households are separated by age of the reference person (65 years and over, compared to those under 65 years). Despite some small variations between the first and the last periods, by the last quarter of 1983, the indexes stand at the same level. In Table 4, where households are classified by the race of the reference person, our indexes indicate a slightly higher rate of increase for the white group during 1979 and virtually identical rates of increase since then.

I must emphasize, as I noted above, that the indexes reported in these tales do not reflect all of the possible sources of differences in inflation experience which would need to be examined in determining the impact of inflation on different groups of the population. They do, however, embody expenditure patterns that vary widely. Although a definitive conclusion must await additional research, it is probably safe to assume that the labor market experience of different population groups varies much more than the inflation experience.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or the other Members of the Committee may have.

HOUSEHOLD DATA
ANNUAL AVERAGES

Table 1

1. Employment status of the civilian noninstitutional population, 1929 to date

(Numbers in thousands)

Year	Civilian noninstitutional population	Civilian labor force							Not in labor force
		Total	Percent of population	Employed			Unemployed		
				Total	Agriculture	Nonagricultural industries	Number	Percent of labor force	
	Persons 14 years of age and over								
1929	(1)	49,180	(1)	47,630	10,450	37,180	1,550	3.2	(1)
1930	(1)	49,820	(1)	45,480	10,340	35,140	4,340	8.7	(1)
1931	(1)	50,420	(1)	42,400	10,290	32,110	8,020	15.9	(1)
1932	(1)	51,000	(1)	38,940	10,170	28,770	12,060	23.6	(1)
1933	(1)	51,590	(1)	38,760	10,090	28,670	12,830	24.9	(1)
1934	(1)	52,230	(1)	40,890	9,900	30,990	11,340	21.7	(1)
1935	(1)	52,870	(1)	42,260	10,110	32,150	10,610	20.1	(1)
1936	(1)	53,440	(1)	44,410	10,000	34,410	9,030	16.9	(1)
1937	(1)	54,000	(1)	46,300	9,820	36,480	7,700	14.3	(1)
1938	(1)	54,610	(1)	44,220	9,690	34,530	10,390	19.0	(1)
1939	(1)	55,230	(1)	45,750	9,610	36,140	9,480	17.2	(1)
1940	99,840	55,640	55.7	47,520	9,540	37,980	8,120	14.6	44,200
1941	99,900	55,910	56.0	50,350	9,100	41,250	5,560	9.9	43,990
1942	98,640	56,410	57.2	53,750	9,250	44,500	2,660	4.7	42,230
1943	94,640	55,540	58.7	54,470	9,080	45,390	1,070	1.9	39,100
1944	93,220	54,630	58.6	53,960	8,950	45,010	670	1.2	38,590
1945	94,090	53,860	57.2	52,820	8,580	44,240	1,040	1.9	40,230
1946	103,070	57,520	55.8	55,250	8,320	46,930	2,270	3.9	45,550
1947	106,018	60,168	56.8	57,812	8,256	49,557	2,356	3.9	45,850
	Persons 16 years of age and over								
1947	101,827	59,350	58.3	57,038	7,890	49,148	2,311	3.9	42,477
1948	103,068	60,621	58.8	58,343	7,629	50,714	2,276	3.8	42,447
1949	103,994	61,286	58.9	57,651	7,658	49,993	3,637	5.9	42,708
1950	104,995	62,208	59.2	58,918	7,160	51,758	3,288	5.3	42,787
1951	104,621	62,017	59.2	59,961	6,726	53,235	2,055	3.3	42,604
1952	105,231	62,138	59.0	60,250	6,500	53,749	1,883	3.0	43,093
1953[2]	107,056	63,015	58.9	61,179	6,260	54,919	1,834	2.9	44,041
1954	108,321	63,643	58.8	60,109	6,205	53,904	3,532	5.5	44,678
1955	109,683	65,023	59.3	62,170	6,450	55,722	2,852	4.4	44,660
1956	110,954	66,552	60.0	63,799	6,283	57,514	2,750	4.1	44,402
1957	112,265	66,929	59.6	64,071	5,947	58,123	2,859	4.3	45,336
1958	113,727	67,639	59.5	63,036	5,586	57,450	4,602	6.8	46,088
1959	115,329	68,369	59.3	64,630	5,565	59,065	3,740	5.5	46,960
1960[2]	117,245	69,628	59.4	65,778	5,458	60,318	3,852	5.5	47,617
1961	118,771	70,459	59.3	65,746	5,200	60,546	4,714	6.7	48,312
1962[2]	120,153	70,614	58.8	66,702	4,944	61,759	3,911	5.5	49,539
1963	122,416	71,833	58.7	67,762	4,687	63,076	4,070	5.7	50,583
1964	124,485	73,091	58.7	69,305	4,523	64,782	3,786	5.2	51,394
1965	126,513	74,455	58.9	71,088	4,361	66,726	3,366	4.5	52,058
1966	128,058	75,770	59.2	72,895	3,979	68,915	2,875	3.8	52,288
1967	129,874	77,347	59.6	74,372	3,844	70,527	2,975	3.8	52,527
1968	132,028	78,737	59.6	75,920	3,817	72,103	2,817	3.6	53,291
1969	134,335	80,734	60.1	77,902	3,606	74,296	2,832	3.5	53,602
1970	137,085	82,771	60.4	78,678	3,463	75,215	4,093	4.9	54,315
1971	140,216	84,382	60.2	79,367	3,394	75,972	5,016	5.9	55,834
1972[2]	144,126	87,034	60.4	82,153	3,484	78,669	4,882	5.6	57,091
1973[2]	147,096	89,429	60.8	85,064	3,470	81,594	4,365	4.9	57,667
1974	150,120	91,949	61.3	86,794	3,515	83,279	5,156	5.6	58,171
1975	153,153	93,775	61.2	85,846	3,408	82,438	7,929	8.5	59,377
1976	156,150	96,158	61.6	88,752	3,331	85,421	7,406	7.7	59,991
1977	159,033	99,009	62.3	92,017	3,283	88,734	6,991	7.1	60,025
1978[2]	161,910	102,251	63.2	96,048	3,387	92,661	6,202	6.1	59,659
1979	164,863	104,962	63.7	98,824	3,347	95,477	6,137	5.8	59,900
1980	167,745	106,940	63.8	99,303	3,364	95,938	7,637	7.1	60,806
1981	170,130	108,670	63.9	100,397	3,368	97,030	8,273	7.6	61,460
1982	172,271	110,204	64.0	99,526	3,401	96,125	10,678	9.7	62,067
1983	174,215	111,550	64.0	100,834	3,383	97,450	10,717	9.6	62,665

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[1] Not available.

[2] Not strictly comparable with data for prior years. For an explanation, see "Historical Comparability" under the Household Data section of the Explanatory Notes.

Source: EMPLOYMENT AND EARNINGS
Bureau of Labor Statistics
U.S. Department of Labor
January 1984

Chart 1

Consumer Price Index for All Urban Consumers
12 Month Changes, 1960–1983

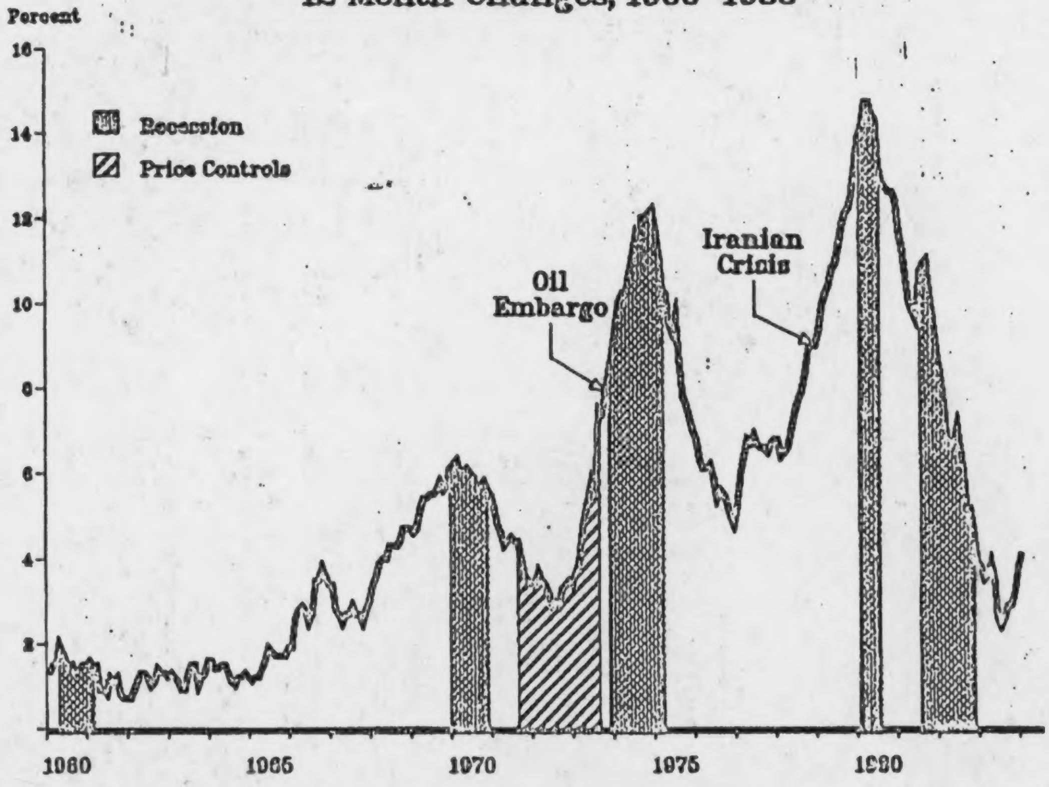

Table 2

Experimental Price Indexes by Income Quintile

Year and Quarter	Income Quintile				
	1	2	3	4	5
7901	100.0	100.0	100.0	100.0	100.0
7902	102.9	103.1	103.3	103.3	103.1
7903	105.7	106.0	106.3	106.3	106.0
7904	108.0	108.4	108.7	108.7	108.4
8001	111.2	111.9	112.3	112.3	112.0
8002	114.0	114.9	115.4	115.4	115.0
8003	117.0	117.6	118.1	118.0	117.6
8004	119.6	120.2	120.7	120.6	120.3
8101	122.8	123.5	124.0	124.0	123.5
8102	125.2	126.0	126.6	126.6	126.1
8103	128.0	128.7	129.3	129.1	128.6
8104	130.0	130.7	131.2	131.1	130.7
8201	131.8	132.3	132.6	132.4	132.0
8202	133.4	133.8	134.1	133.8	133.4
8203	136.0	136.4	136.7	136.4	136.0
8204	137.4	137.7	137.9	137.6	137.2
8301	138.3	138.3	138.3	137.9	137.6
8302	139.9	140.0	139.7	139.7	139.3
8303	141.6	141.7	141.9	141.5	141.0
8304	142.5	142.7	143.0	142.6	142.3

SOURCE: Bureau of Labor Statistics
February 28, 1984

Table 3

Experimental Price Indexes by Age of Reference Person

Year and Quarter	Age of Reference Person	
	Under 65	65 or Over
7901	100.0	100.0
7902	103.2	102.9
7903	106.2	105.8
7904	108.6	108.3
8001	112.1	111.7
8002	115.1	114.6
8003	117.8	117.4
8004	120.4	119.9
8101	123.7	123.3
8102	126.3	125.8
8103	131.1	128.4
8104	130.9	130.4
8201	132.3	132.2
8202	133.7	137.8
8203	136.3	136.4
8204	137.5	137.8
8301	137.9	138.6
8302	139.7	140.1
8303	141.4	141.6
8304	142.6	142.6

SOURCE: Bureau of Labor Statistics
February 28, 1984

Table 4

Experimental Price Indexes by Race

Year and Quarter	Race	
	White	Black and Other
7901	100.0	100.0
7902	103.2	103.1
7903	106.2	105.8
7904	108.6	108.1
8001	112.1	112.4
8002	115.1	114.4
8003	117.8	117.3
8004	120.4	120.0
8101	123.7	123.0
8102	126.3	125.5
8103	128.9	128.3
8104	130.9	130.3
8201	132.3	131.7
8202	133.7	133.2
8203	136.3	135.7
8204	137.6	136.7
8301	138.0	137.4
8302	139.8	139.2
8303	141.5	140.8
8304	142.7	141.8

SOURCE: Bureau of Labor Statistics
February 28, 1984

Chairman Domenici. Do you want to proceed with questions, Senator Chiles?

Senator Chiles. I think we should try to get through.

Chairman Domenici. All right. Senator Chiles has to leave by 11, and I have to leave in about 7 or 8 minutes, but we will have Senator Kassebaum here to chair, I hope, and that means you will all get to state your testimony in full, and if Senators have questions, there will be an opportunity.

Let's proceed with your testimony, Dr. Bernstein, if you will, please. We do have your testimony.[1]

STATEMENT OF DR. BLANCHE BERNSTEIN, DIRECTOR, SOCIAL POLICY RESEARCH INSTITUTE, NEW SCHOOL FOR SOCIAL RESEARCH, NEW YORK, N.Y.

Dr. Bernstein. Thank you, Mr. Chairman.

You do have my written testimony, and I will try to summarize as quickly as I can, some of the highlights.

Chairman Domenici. We appreciate that.

Dr. Bernstein. I would like to start by saying that I do have a paragraph or two indicating that fairness depend on one's general sense of values, and one gets at a definition of fairness, in my view, only by having some sense of the consensus of the population.

I will focus my discussion on the AFDC and food stamp programs, the largest and the most controversial of the means-tested programs. As a basis for my judgment as to what was fair and what was not fair, I have analyzed the changes adopted in the Omnibus Budget Reconciliation Act of 1981, since, while the President proposed substantially heavier cuts, and also made proposals for substantial cuts in the succeeding 2 years, these were not adopted by the Congress; the 1981 legislation adopted by the Congress was signed by the President.

LONG-TERM DEPENDENCY A SERIOUS PROBLEM

I have briefly described developments in the AFDC program and food stamps in the period 1960–75. This period was marked by an increased dependency of families headed by women, high payment error rates in the AFDC and food stamp caseloads. The increase in caseloads bore little relationship to levels of unemployment or employment. There was no serious obligation placed on AFDC mothers with school-age children to work, nor was a workfare program permitted, to determine whether or not some were, in fact, working off the books, and therefore, not discovered through the usual computer checks. And finally, it should be noted that while, over period of the last 10 years or so—while the majority of families who obtain welfare do not remain on welfare for more than 3 years—in other words, relatively short term—at any point in time, if one looks at caseloads, according to figures that were developed by Mary Joe Bane and David Ellwood of Harvard, about half have been on welfare for 8 years or more, and about 75 percent, for 5 years or more. It is, therefore, a serious problem of long-term dependency.

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[1] See p. 332.

By 1980, public perception or consensus about the AFDC and the food stamp programs was that more were obtaining these benefits than should have, and that more welfare recipients could have been working than were. And the situation was regarded as unfair.

Did the changes enacted in 1981 go too far in redressing the balance?

In tables 1 and 2, on pages 9 and 12 of my testimony,[1] I have classified the changes into those I consider reasonable or harsh, and one could use the words "fair or unfair." In the category of reasonable, are technical procedures to reduce ineligibility and overpayments and policy changes, such as requiring stepparents with sufficient income to support their stepchildren, limiting the earned income disregard in amount and duration, and limiting income of AFDC recipients to 150 percent of the State standard of welfare.

Others, relating to the age of dependent children, aid to pregnant women and striking workers, were in my view harsh, and in some cases, in states with general assistance programs, only transferred the fiscal burden to States and localities.

In the food stamp program, among the harsh cuts, I include the postponement of indexing, although the burden clearly was mitigated by the decline in inflation.

In sum, I conclude that about 75 percent of the cuts in AFDC were reasonable, as were about 40 percent of the cuts in food stamps. The harsh cuts impinged mainly on the upper end of the welfare caseload or of the food stamp recipients.

Programs for the aged were scarcely cut at all.

GIVING WELFARE MOTHERS CHOICE TO WORK NOT EQUITABLE

It is worth a word or two about the work issue, which has perhaps elicited more charges of unfairness than any other change enacted in OBRA. In essence, the question is whether a welfare mother should have the choice of working or not working, especially in those situations where a relatively well-paying job cannot be obtained. My own view is that such a choice is not permissible in a society in which more than 60 percent of the married women in the general population with children over 6 years old are working; for those women with children 3 to 6, about 35 to 45 percent are employed. It is simply not equitable to permit welfare mothers to have the choice of working or not working. That position leads to an undesirable public perception of welfare assistance.

Further, if we do permit any significant level of abuse, the sense of justice is eroded, and those who make every effort to meet their obligation are certain to be influenced by those who are not.

The fairness issue, however, must also be considered in the larger context—the non-means-tested programs, the level of unemployment, the costliness of the defense effort, farm subsidies, and other matters.

The changes in Federal retirement pay enacted in 1982 and in social security benefits in 1983, have largely eliminated the basis for the charge of unfairness as between poor recipients of AFDC and food stamps and the large numbers of middle-class recipients of social security and Federal retirement pay.

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[1] See pp. 341 and 344.

But there are some things we cannot be comfortable about. These include the unemployment rate of almost 11 percent in 1982—the highest rate since the thirties—the continuing high unemployment rate of about 8 percent and, consequent to the rise in unemployment, the loss of health coverage from employer health insurance programs for about 12 million persons—a serious burden for low- and middle-income families.

Further, as an academic critic of welfare policy administration in the first half of the seventies, and as a welfare administrator in the second half of the seventies, I have often been faced with the charge of picking on the poor instead of focusing on income tax cheats, excessive expenditures for military equipment, or the more egregious farm and other types of subsidies.

REDUCE FRAUD AND ABUSE

I can answer for myself. I am opposed to fraud, abuse, unnecessary subsidies and incompetence wherever they are to be found. But my expertise lies in the field of social welfare, and so I focus my energy in that area. The President, the Executive Office, and the Members of the Congress cannot use that response.

Recent changes in legislation and actions taken by the Internal Revenue Service have permitted intensified efforts to reduce income tax fraud, and one may hope for good results from additional reporting requirements on dividends, interest, and capital gains. But so far, progress toward reducing excess defense expenditures for nuts, bolts and screws or larger pieces of military equipment, has been minuscule.

To utilize a colloquial form, if officials in New York, including myself, could reduce the payment error rate in welfare from 27 to 7 percent in less than a decade, despite considerable opposition from some vocal sections of the community, the President and the Congress ought to be able to save the billions of dollars wasted in military procurement, even while insuring a defense effort second to none. Inaction in this area will not promote a sense of fairness in this society.

Just within the last few days, the Census Bureau published the data which we have been hearing about this morning on the change in the rate of poverty taking account of inkind benefits. And we all now know that it increased from 6.8 to 10 percent of the population between 1979 and 1982, and that the rates were far heavier for blacks and Hispanics and for children less than 6 years old. It is possible that when the data become available for 1983, we will see some improvement in 1983 because of the decline in unemployment. But we cannot be complacent about any increase in poverty.

The Congress exercised wise judgment in 1982 and 1983, by legislating only minor cuts that were proposed in the means-tested programs. In dealing with the deficit problems, it needs to exercise the same wise judgment and find the necessary savings in other areas of expenditures and in taxes and not in further cuts in the means-tested programs, except where additional efficiency can be achieved, and certainly, that is possible in medicare and medicaid.

Otherwise, fairness will not be achieved.

Beyond that, the Congress must concern itself with the causes of poverty as they exist today—the broken family and teenage pregnancy. These are subjects for another hearing, and I do hope the Congress will hold one soon.

Thank you very much.

Chairman DOMENICI. Thank you very much, Dr. Bernstein.

[The prepared statement of Dr. Bernstein follows:]

Testimony

of

Blanche Bernstein
Director, Social Policy Research Institute
New School for Social Research
New York, NY

Before

United States Senate
Committee on Budget
February 28, 1984

We have a number of common phrases in the English language such as What's fair is fair" and let's be fair about this" or "That's not fair". Such phrases make it sound as if it is easy to decide what is fair. The convening of this hearing before the U.S. Senate's Budget Committee is testimony to the fact that it is not always obvious. Indeed, one's notion of fairness depends on one's general sense of values in the particular society and culture and it varies over time as the society becomes more or less prosperous and benefits or sacrifices have to be distributed. A fundamental tenet of our society is equality of opportunity, one not always observed, but we are progressing towards that ideal. A guarantee of equal outcomes in the pursuit of life, liberty and happiness has never been and is not now a generally held goal. Fairness, then becomes a matter of judging the general consensus of the members of the society on particular decisions and issues within the framework of the total picture of the distribution of benefits and sacrifices.

In my discussion of the fairness issue as it relates to means tested programs and in particular to the changes which have occurred since 1981, I shall focus on the AFDC and Food Stamp programs. These are not only among the largest such programs but they have been the most controversial. But I shall also try to relate the actions taken with respect to AFDC and food stamp benefits to executive and legislative actions in non-means tested welfare programs and to some programs outside the welfare field. A brief review of the course of the AFDC and food stamp programs in the 1960's and 1970's is necessary background for a judgment of the fairness of the changes imposed since the beginning of the Reagan administration.

Between 1940, when the AFDC program became well-established, and 1960, the number of recipients rose from 1.2 million to 3.1 million (after a dip during the war years). After a fairly rapid postwar readjustment, these were relatively prosperous years; but they were also the years of large-scale migration of blacks from the South to the North and West and from Puerto Rico to the mainland, especially New York City. Migrants are a vulnerable group likely to need help when unemployment, illness, or other catastrophes strike. Family break-ups and out-of-wedlock pregnancies also began rising during these years.

The major explosion in welfare caseloads, however, came in the 1960's a period of declining unemployment--from 6 percent at the beginning of the decade to 3 percent at the end--of rising real wages and declining migration from the South and Puerto Rico. The caseload rose from 3 million recipients in 1960 to 9.7 million in 1970 and continued upward to a peak of 11.4 million in 1975. It then tapered off to a low of about 10.4 million in 1978-1979 when it began to rise gradually; by June 1981 it reached a level of 11.1 million, still below its 1975 peak. These welfare recipients are mainly families headed by women. The AFDC-U program (covering two-parent families with a disabled or unemployed wage earner) operates in only twenty-five states and has never accounted for more than 10 percent of the total AFDC caseload in any state (and in most states, has remained substantially below this level).

The increased dependency of families headed by women cannot be attributed to a lack of welfare programs for the intact family. In states that have both AFDC-U and general assistance programs (including New York, Pennsylvania, and Michigan), the number of intact families on welfare has not been very large since 1940 and has been decreasing in most of the post-World War II years. Only in the last two years, and in cities particularly hard hit by unemployment--such as Detroit, with 16 percent unemployment; and Rochester, with over 13 percent--has the number of two-parent families on welfare increased significantly.

Society's concern about dependency is different for short-term than long-term dependency. Assistance for those suffering from the "vicissitudes of life" is widely acceptable. Doubts arise where dependency appears to be long-term and unrelated to physical or mental illness or other uncontrollable factors. Until recently, most of the data on duration of poverty and welfare dependency were totally inadequate. We now have appropriate data from the Panel Study of Income Dynamics (PSID) done under the aegis of the Survey Research Institute of the University of Michigan. Analysis of the data has been done by members of the institute staff as well as by Mary Jo Bane and David T. Ellwood at the Kennedy School of Government at Harvard University. Much is to be learned from both.

In summary, in these two studies on the duration of poverty and dependency, based on data from a national sample of households followed for ten years, 1969-1978, both agree that the majority of households who are poor and receive welfare at some point do not remain on welfare for more than three years, but that a sizable fraction remain longer. Among current welfare recipients, slightly more than half have been on welfare for eight or more years, while three-fourths have been on welfare for at least five years. Blacks are dependent on welfare longer than average, and female-headed black families longer still. Black children in these families remain in poverty the longest of all. Family break-up, or unwed motherhood and loss of jobs or decreased earnings are the major causes of dependency, while marriage and jobs or increased earnings are the major factors in ending dependency.

Welfare has played an enormously useful role in helping large numbers of families to surmount adversity. Has it also played some role in fostering long term dependency for others?

I want to refer only briefly to the high rates of ineligibility and payment errors which were uncovered in many states beginning about the mid 1970's. It is an old story. Suffice it to note that as a result of a considerable tightening of administrative practices, the payment error rate has now been reduced to somewhat reasonable levels although some further improvement is still necessary. In my state, New York, for example, the payment error decreased from over 27 percent in 1974 to about 7 percent in 1981.

What still does need more extended discussion in 1984 is the work issue.

For more than a decade 1960-1971, when jobs were relatively easy to obtain, no serious obligation was placed on AFDC mothers with children of school age to work and little sense of expectation that they would or should work was transmitted to them through the WIN program, welfare administrators or the social welfare community in general. Instead of encouraging AFDC mothers to seek independence through work, we heard welfare administrators belittle the number of AFDC mothers who could work, rail against menial work, insist on financial incentive to mothers who sought work and finally to suggest that even the disregard of $30 and a third of earnings, was not enough. It was as if signs were put up saying Beware This Road called Employment: It May Endanger Your Benefits.

Nor did welfare policy permit a work test for AFDC mothers through workfare programs to determine in the first place whether or not some were in fact working "off the books" and therefore not discovered through the usual computer checks. The range of estimates of the "underground" or "informal" economy, excluding illicit activities such as the drug trade, is wide; from 15 to 25 percent of the economy according to some, substantially lower according to others but still significant.

Some working in the informal economy were also obtaining welfare. Experience with workfare programs for individuals on General Assistance in New York revealed that of those referred for such jobs, 21 percent failed to report for the interview, or the work assignment, and the cases were therefore closed - currently about 36 percent remain closed for six months or more. Even more striking is the fact that about 35 percent failed to report for full time CETA jobs even though these jobs paid $7,500 a year or more. Clearly, those who failed to report had other sources of income.

We are finding the same phenomenon in the Community Work Experience Program (CWEP). In 17 counties in New York State (other than N.Y. City) where CWEP was established, figures indicate that among those AFDC mothers called up for assignment, at least 20 percent, and possibly as many as 30 percent were closed for non-compliance.

In New York City, data available for a CWEP project limited to AFDC mothers whose youngest child was 17 years old, indicate that of 446 mothers called up, 51.5 percent were closed or sanctioned for failure to report for interviews or assignment or because they quickly found a job. This is a figure which cannot be ignored.

I have written extensively about the problems experienced with the Food Stamp Program, the other major means-tested income support program in my book, The Politics of Welfare: The New York City Experience. In brief, the legislation and regulations governing the program failed to maintain an appropriate balance between two necessary objectives - reasonable access to benefits and program integrity. As a result, actual expenditures greatly exceeded estimates and ineligibility and overpayments reaced high levels.

The general public has indicated through a variety of polls during recent decades that they strongly support the idea of helping the poor through cash benefits, food stamps and other programs. But, as we come to the close of 1980, the public perception or consensus about AFDC and Food Stamps was that more people were obtaining welfare and food stamp benefits than should have and that more welfare recipients could and should have been working than were doing so and this situation they regarded as unfair.

Did the changes proposed by President Reagan as adopted by the Congress, go too far in redressing the balance? My answers in the analysis which follows are based on the legislation adopted by the Congress and signed by the President, the Omnibus Budget and Reconciliation Act of 1981, and not the President's original proposals as submitted to the Congress. There is always a give and take between the President whether Democrat or Republican and the Congress whatever its political balance. It is the final act that counts; without doubt, OBRA's provisions mitigated the impact of the original proposals, but I don't think its useful at this stage to discuss what might have been had the President's proposals been accepted without change. The President made further proposals for substantial cuts in AFDC and Food Stamps in 1982 and 1983 but most were rejected by the Congress; such modifications as were adopted were minor. Thus it is OBRA that must be judged for fairness.

The OBRA changes in the rules governing AFDC may be classified into two categories - technical procedures to reduce ineligibility and overpayments and policy changes that limit the definition of eligibility. I have subdivided these two categories into what may be regarded - in any event, which I regard as reasonable or harsh, words which can be translated into fair or unfair, and a third category which I label as less generous or inconvenient (see Table I).

The major new tools for reducing ineligibility and overpayments in the AFDC program are retrospective budgeting (i.e., determining the welfare grant on the basis of income in the previous month rather than the current one) and monthly reporting of income, changes in family composition, etc. Proponents of the new procedures anticipated savings as a result of more timely information though none were anticipated in FY 1982. Further, it is doubtful whether any substantial savings have yet been or can be achieved and some states are asking for waivers on this provision. Significant savings are anticipated from a new provision

Table I .

Effect of 1981 OBRA Amendments on AFDC

Category of change	Estimated Federal Savings in FY 1982 (In Millions of Dollars)	Percentage of Total Estimated Savings
Technical Procedures to Reduce Ineligibility and Overpayments		
Reasonable		
Adjustments for overpayments	115	21.1
Less Generous or Inconvenient		
Retrospective Budgeting and Monthly Reporting	0	-
Policy Changes Limiting Eligibility or Grant Level		
Reasonable		
Stepparent Income	154	28.2
Earned Income Disregard (EID)	75	13.7
Four Month Limit on EID	62	11.4
Lump Sum Payments	5	0.9
Income Limit (150 Percent of Welfare Standard)	0	-
Harsh		
Dependent Child Under 18	50	9.2
Pregnant Women (Third Trimester)	20	3.7
Counting Food Stamp Benefits	10	1.8
Striking Workers	5	0.9
Less Generous or Inconvenient		
Earned Income Tax Credit		3.5
Resource Limit Reduced to $1000	16	2.9
Sponsor Responsibility for aliens	15	2.7
Total	546	100.0

Note: The savings estimates were prepared by the Congressional Budget Office and were lower than the estimates prepared by the Executive Office. The classification of the savings into categories is the author's.

requiring prompt repayment of overpayments (of up to 10 percent of the welfare grant), a provision which may impose some hardship on the individual family for a temporary period but cannot be considered unreasonable.

Other amendments will have a significant impact on the determination of AFDC eligibility and the AFDC benefit level. Most significant is the provision requiring stepparents with adequate income to contribute to the support of their stepchildren; previously, stepparents had no such obligation. This change is expected to account for the largest single savings of all the changes (about 28 percent of the total), and represents a more traditional view of a stepparent's role. Another change limiting the income of AFDC recipients to 150 percent of the state's welfare standard on continuing eligibility eliminated many thousands of recipients, despite Congressional Budget Office estimates that it would produce no savings.

The major conceptual change embodied in the 1981 amendments is the abandonment of the notion of providing welfare recipients with a financial incentive to work--the $30 and a third disregard. The financial incentive has been reduced in amount and limited in duration to the first four months of consecutive employment; also, it cannot be applied again until twelve months have passed.

Two other important changes are that (1) AFDC mothers will no longer be exempt from workfare programs and (2) employable AFDC mothers whose children are at least three years old (formerly, it was six years old) can be required to participate in workfare programs if adequate child care is available.

Overall, the various amendments adopted in 1981 are estimated to save just over one billion dollars of federal, state, and local welfare funds--or about 7 percent of the welfare expenditures previously anticipated for fiscal year 1982. Of all the changes affecting benefits, four have a significant impact: inclusion of stepparent income (28.2 percent), adjustments for overpayments (21.1 percent), the reduction in the earned income disregard (13.7 percent), and the four-month limitation on the earned income disregard (11.4 percent). In total magnitude of savings, the 1981 amendments can hardly be regarded as a counter revolution. But the aforementioned changes which account for 75 percent of the cuts plus the provision for workfare, which was not expected to realize savings in the first year, do represent a turnaround to more traditional attitudes concerning family responsibility and the head of the family's responsibility to work, as well as a more rigorous adherence to the standard of need established by the states. They can be regarded as reasonable changes reflecting a general consensus of the population.

The cuts enacted in the Food Stamp Program were much more heavily concentrated on the simple cost cutting device of postponing indexing for price changes and less on technical procedures to reduce ineligibility or policy changes limiting eligibility than was true for the AFDC program. (see Table II). One may include among the reasonable policy changes the initiation of prorata benefits from the date application was made instead of the beginning of that month (a procedure established through

Table II

EFFECT OF 1981 AMENDMENTS TO FOOD STAMP ACT

Category of Change	Estimated Federal Savings in FY 1982 (In Millions of Dollars)	Percentage of Total Estimated Savings
Technical Procedures to Reduce Ineligibility and Overpayments		
Reasonable		
Improved Management (including Elimination of Outreach)	29	1.8
Subtotal	29	1.8
Cost-Saving Devices		
Harsh		
Postponement of Indexing Standard Deductions and Elimination of Excess Shelter Allowance	242	15.1
Three-Month Lag in Indexing Thrifty Food Standard	512	31.8
Subtotal	754	46.9
Policy Changes Limiting Eligibility		
Reasonable		
Initiation of Pro Rata Benefits	495	30.8
Repeal of Enriched Deductions[a]	63	3.9
Definition of Family and Elimination of Boarders	60	3.9
Harsh		
Elimination of Benefits to Strikers	50	3.1
Less Generous		
Reduction in Gross Income Limit to 130 Percent of Poverty Level	110	6.8
Decrease in Earned Income Deduction from 20 to 18 Percent	48	3.0
	826	51.3
	1,609	100.0

Note: The savings estimates were prepared by the Congressional Budget Office. The classification of the savings is the author's.

(a) These had never come into effect.

court interpretation rather than legislation) which accounts for 30.8 percent of total estimated savings and the repeal of enriched deductions (these were always questionable and had in fact not yet been put into effect) accounting for 3.9 percent of savings. Altogether, 40 percent of the cuts appear reasonable, 50 percent harsh (the postponement of indexing) and about 10 percent are less generous. Further, the overall cut of 13.4 percent was almost double the 7 percent cut on AFDC. It must also be said, however, that the food stamp cut achieved mainly through delayed indexing while it did impose a burden on the poor and low income families did not impose a heavy burden since the rate of inflation diminished substantially in the years subsequent to passage of the legislation.

In summary then, my view that with respect to the major means tested programs designed to help the non-aged with low or no income, AFDC and Food Stamps, the technical procedures and policy changes have been preponderantly reasonable, (indeed, some were long overdue) and mainly impinged on the upper end of welfare caseload, those receiving supplementation of earnings to levels substantially above the state welfare standards. Further, where some hardship has been imposed on all food stamp recipients by delayed indexing, the burden cannot be described as heavy. Further, benefits to the needy aged and disabled population on the means-tested Supplementary Security Income (SSI) program were scarcely cut at all.

It is perhaps worth commenting further on the work issue since this has elicited more charges of unfairness than any other single change enacted in OBRA.

In essence, the question is whether a welfare mother should have the choice of working or not working, especially in those situations where a relatively well paying job cannot be obtained. My own view is that such a choice is not permissible in a society in which more than 60% of the married women in the general population with children over 6 years -- be they male headed or female headed families -- are working. For those women with children ages 3 to 6 years, about 35% to 45% are employed. It is simply not equitable to permit welfare mothers to have the choice of working or not working. This position leads to an undesirable public perception of welfare assistance.

There's another factor that one has to take into account. The AFDC population, and the welfare population as a whole, is not homogenous with respect to its attachment to the work ethic. Here again, studies have been done giving opposing points of view. Some have found that a large majority of people on welfare are attached to the work ethic - that recipients want jobs. But in my studies, I found a somewhat fragile attachment to the work force and to the work ethic. There was a clear indication that many respondents would be rather reluctant to take jobs which didn't pay them very much more than they would get from welfare.

As I have already indicated, there are also those who may be working in the underground economy and not reporting their income.

If we permit any significant level of abuse, the sense of justice is eroded. Those who make every effort to meet their obligations are certain to be influenced by those who are not, and soon we see that the efforts that they make to fulfill their obligation are diminished. This is simply not good for society.

What I'm saying, therefore, is that the welfare client's attachment to the work ethic needs to be reinforced by the imposition of certain obligations on the employable welfare population. The opposition view, which prevailed in the 60's and 70's, was that very few AFDC mothers were employable. And, for those that were, they should not be required to take menial jobs. We were also told that they must receive financial incentives in order to work and should be subject to a low marginal tax rate. The ideological justification for this view is simply not in accord with the economic requirements of the society, or the general sense of equity and fairness. It is not acceptable for some AFDC mothers to decide that they would rather not work, because enough other people seemed willing to work and produce enough to support them. And, it simply is not fair or just for a society to have some adults decide to work, but not report their earnings to a welfare department.

Workfare is an additional essential tool first to insure the integrity of the program and continued public support for it. Second, it does give people some needed work experience and discipline, and also provides them some opportunity to move into jobs in public agencies.

The fairness issue, however, must also be considered in a larger context, one which includes the non-means tested programs, mainly Social Security, comparable retirement programs for the Federal Civil Service and second, even broader issues such as the level of unemployment, the costliness of the defense effort and farm subsidies.

Since this hearing is being held in February, 1984, the witnesses can be more comfortable than we might have been two years ago. The changes in federal retirement pay enacted in 1982 and in Social Security benefits in 1983, including shifting indexing of federal retirement pay from a semi-annual to an annual basis and other restrictions on benefits, the delayed indexing for federal and Social Security retirement and the taxing of Social Security benefits if income exceeds stated limits have largely eliminated the basis for the charge of unfairness as between the poor recipients of AFDC and Food Stamps and the large numbers of middle class recipients of Social Security and federal retirement pensions.

But there are some things we cannot be comfortable about. These include the unemployment rate of 10.8 percent in 1982, the highest rate since the 1930's, the continuing high unemployment rate of over 8 percent, and the consequent loss of health coverage from employer health insurance programs for about 12 million persons, a serious burden for low and middle income families. Further, as an academic critic of welfare policy and administration in the first half of the 70's and as a welfare administrator in the second half of the 70's, I have often been faced with the charge of picking on the poor instead of focussing on income tax cheats, excess expenditures for military equipment, or the more egregious farm subsidies. I can answer for myself - I am opposed to fraud, abuse, unnecessary subsidies, and incompetence wherever they are to be found but my expertise lies in the field of social welfare and so I can focus my energy only in that area. The President, the Executive Office and the Congress cannot use that response.

Recent changes in legislation and actions taken by the Internal Revenue Service have permitted intensified efforts to reduce income tax fraud and one may hope for good results from additional reporting requirements on dividends, interest, and capital gains. But so far, progress towards reducing excess defense expenditures for nuts, bolts and screws or larger pieces of military equipment has been miniscule. To utilize a colloquial form - if officials in New York, including myself, could reduce the payment error rate in welfare from 27 to 7 percent in less than a decade despite considerable opposition from some vocal sections of the community, the President and the Congress ought to be able to save the billions of dollars wasted in military procurement even while insuring a defense effort second to none. Inaction in this area will not promote a sense of fairness in the society.

Just within the last few days, the Census Bureau published data on the change in the rate of poverty including in-kind benefits; as is by now well known it increased from 6.8 to 10 percent of the population between 1979 and 1982. The rates were far heavier for Blacks and Hispanics, over 20 percent in 1982 and for children less than 6 years old - 17.2 percent. It is possible that when the data become available - maybe a year from now - we will note some improvement in 1983 because of the decline in unemployment from its peak of 10.8 percent. But we cannot be complacent about any increase in poverty.

The Congress exercised wise judgment in 1982 and 1983 by legislating only minor cuts in means-tested programs. In dealing with the deficit problems, it needs to exercise the same wise judgment and find the necessary savings in other areas of expenditures and in taxes, if fairness is to be achieved.

Beyond that Congress must concern itself with the causes of poverty as they exist today - the broken family and teenage pregnancy. These are subjects for another hearing - I hope it will be held soon.

Chairman DOMENICI. Dr. Palmer.

STATEMENT OF DR. JOHN L. PALMER, SENIOR FELLOW, THE URBAN INSTITUTE

Dr. PALMER. Mr. Chairman, thank you. My formal remarks are very brief, and I think I can make them even briefer in my presentation. I want to briefly address three issues—what have been the distributional consequences of the recent policy changes, abstracting from the performance of the economy; what effect have these policy changes and the performance of the economy had on the disposable income of families, and third, what are the prospects for the future.

DISTRIBUTIONAL CONSEQUENCES

First, what have been the distributional consequences of the changes in Federal taxing and spending policies over the past 3 years?

The general answer, which is one that is familiar to you, is shown in table 1 of my testimony.[1] This table incorporates the major personal income tax changes made under ERTA and TEFRA and the reductions in programs paying benefits to individuals that were enacted through last August. The changes are measured relative to the fiscal year 1981 baseline, or those tax and spending policies that were in effect at the beginning of the current administration.

Overall, the gains from the Federal tax reductions rise substantially with households income, both absolutely and as a percentage, while the reductions in Federal benefit payments for individuals are concentrated among lower income households. The net effect is a marked increase in the dispersion of after-tax income.

DISPOSABLE INCOME

While table 1 portrays the distribution of the gains and losses due to the Federal tax and spending changes, it does not provide a picture of the actual changes in standards of living or purchasing power that have occurred for typical families. To do this, one has to combine earnings and other sources of private income with the actual changes in the levels of taxes and public transfers at all levels of government and also adjust for inflation. This is done in table 2,[2] which displays estimates of the changes in real disposable income for the average family in each fifth of the income distribution, as well as the overall average between 1980 and this year.

The first thing to note from this table is that the overall average increase in family disposable income over the 4-year period will be about 2 percent. This is far below the average experience of the past three decades, which was a period of rising tax burdens. The primary reason for such a small increase in the face of a major reduction in Federal personal income taxes is, of course, the severe recession of 1981 and 1982. Now that a recovery is underway the picture is improving.

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[1] See p. 357.
[2] See p. 359.

The second thing of note in table 2 is the distribution of the changes in real disposal income around the average. Not surprisingly, it displays the same pattern of growing inequality as table 1. This is primarily because of the imposition of the Federal tax and benefit cuts on top of a small average increase in disposable income. However, the distributional pattern of changes in real disposable income in table 2 is also strongly affected by two other factors—first, the recent increases in State and local taxes and Federal payroll taxes; and second, the extremely high levels of unemployment of the past 2 years. Both of these bear disproportionately on lower income families. A comparison of 1984 to 1980 shows that families in the lowest income quintile now face a heavier tax burden, and both of the lower two quintiles face a higher total tax burden when State and local taxes are also taken into account.

It is the combination of these—the Federal benefit reductions and the higher-than-average unemployment—that has resulted in actual reductions in real disposable income for these lower quintiles, despite the slight increase in overall family disposable income.

PROSPECTS FOR THE FUTURE

Let me finally turn to the prospects for the future changes in the growth and distribution of disposable incomes. In a nutshell, they are highly uncertain. One way to think about them is to assume that there are no further changes in major Federal policy on the tax or spending side, and that the current recovery continues for the rest of the decade at the 3.5- to 4-percent annual average real rate of growth of GNP that is assumed in current CBO and administration projections. In this case, the increase in the standard of living over the 1980's of the average American will be somewhat less than the 23-percent increase experienced in 1970, and far less than the 31-percent increase of the 1960's. One might also expect that the distribution around that average will look something like that in table 2, with higher income persons realizing higher relative gains than lower income persons.

However, the assumptions I just used to calculate the growth in standards of living are decidedly optimistic. It is highly unlikely that the recovery will proceed unabated for 7 straight years, and the large and growing structural deficits now facing us will have a major detrimental impact on the future growth rates of the economy and our standards of living if they are not soon reduced.

For this reason, I strongly applaud the efforts of members of this committee and others to initiate the steps necessary to bring future deficits within reasonable bounds. However, it is important to understand that the inevitable spending cuts and tax increases could have large further impacts on the distribution of disposable incomes. The budget cuts of the past three years have reduced Federal domestic spending to date by about 1½ percent of GNP; while Federal taxes have declined about 2 percent of GNP. Eliminating the structural deficit projected by CBO by the end of this decade would require a combination of additional program spending reductions and tax increases totaling in excess of 5 percent of GNP. Thus, the distributional consequences, whatever measures are taken, are potentially large and deserve serious consideration, especially in light of the experience of the past three years.

That concludes my testimony.

[Whereupon, Senator Kassebaum assumes the chair.]

Senator KASSEBAUM. Thank you very much, Dr. Palmer.

[The prepared statement of Dr. Palmer follows:]

Statement of John L. Palmer[*]

on the Impact on Individuals and Households
of Legislative and Economic Changes of the Past Several Years

Before the Senate Budget Committee Hearings
on the First Concurrent Resolution on the FY 1985 Budget

February 28, 984

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[*] Senior Fellow, The Urban Institute. Any views expressed herein are my own and do not necessarily reflect those of The Urban Institute, its officers, trustees or funders.

Mr. Chairman, thank you for the opportunity to appear before you today to discuss the consequences of the federal policy changes that have occurred over the past three years on the economic status of Americans. In doing so I want to briefly address three issues: (1) What have been the distributional consequences of these policy changes to-date, abstracting from the performance of the economy? (2) What effect have these policy changes and the performance of the economy had on the disposable income of families? and (3) What are the prospects for the future? These issues have been one of the focuses of our ongoing project on Changing Domestic Priorities at The Urban Institute and were dealt with extensively in a chapter on "The Economic Well-Being of Families and Individuals" from a 1982 report of this study entitled The Reagan Experiment. We are now in the process of expanding and updating this analysis. My remarks this morning are based partially on this more recent analysis. We have been fortunate in having Professor Levy, who is also testifying this morning, as a key participant in this work, so he and I probably have a similar story to tell.

Distributional Consequences

First, what have been the distributional consequences of the changes in federal taxing and spending policies that have occurred in the past three years? The general answer, which is one that is familiar to you, is shown in Table 1. This table incorporates the major personal income tax changes made under ERTA and TEFRA and the reductions in programs paying benefits to individuals that were enacted through August, 1983. The changes are measured relative to the FY 1981 baseline, or those tax and spending policies that were in effect at the beginning of the Reagan administration.

Overall, the gains from the federal tax reductions rise substantially with household income, both absolutely and as a percentage, while the reductions in federal benefit payments for individuals are concentrated among lower income households. The net effect is a marked increase in the dispersion of after-tax incomes. Two major policy changes which are difficult to allocate to individual households--reductions in business taxes and discretionary grants to state and local government--are omitted from these figures. If they were included, they would further reinforce this effect because the grant reductions were also concentrated in programs targeted on low income households, and stockholders, who are concentrated among higher

TABLE 1

Net Changes in Taxes and Benefits Per Household Enacted in 1981 - 1983

By Income Category: Calendar Year 1984

(current dollars)

	Household Income in 1982 Dollars					
	Less Than $10,000	$10,000-20,000	$20,000-40,000	$40,000-80,000	$80,000 and over	All Households
Benefit Reductions	-430	-300	-170	-140	-160	-230
Taxe Reductions	150	550	1,200	2,440	18,980	1,210
Total, net change	-280	250	1,030	2,300	18,820	1,190
As a percent of household income	-5.6	1.7	3.4	3.8	9.4	4.0

SOURCE: Various Congressional Budget Office staff memoranda and author's calculations.

NOTE: Percentage change calculated on basis of mid-point of household income range for first four categories, $200,000 for the highest income group and $30,000 for all households. Benefit reductions include programs which provide cash and in-kind payments to individuals. Tax reductions include all major personal income tax provisions.

income households; are likely to be primary beneficiaries of the business tax cuts.

The Effects on Disposable Income

Table 1 portrays the distribution of the gains and losses due to the federal tax and spending changes of the past several years. However, it does not provide a picture of the actual changes in standards of living or purchasing power that have occurred for typical families. To do this one has to combine earnings and other sources of private income with changes in the levels of taxes and public transfers at all levels of government and adjust for inflation.* This is done in Table 2, which displays estimates of the changes in real disposable income (i.e., after-tax income adjusted for inflation) for the average family in each fifth of the income distribution, as well as the overall average, between 1980 and this year.

The first thing to note from this table is that the overall average increase in family disposable income over the four year period will be about 2 percent. This is far below the average experience of the past three decades, which was a period of rising tax burdens. The primary reason for such a small

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* Note that though benefit levels and taxes may be reduced relative to a prior policy baseline, they may still be rising in real terms.

TABLE 2

Percentage Change in Real Disposable Income of the Average Family in Each Quintile of the Income Distribution: 1980-1984

1	2	3	4	5	All Families
-5.4	-2.5	+1.5	+2.4	+3.5	+2.0

SOURCE: Author's estimates based on Urban Institute TRIM simulations and current economic projections. Public transfers include all cash programs and food stamps.

increase in the face of a major reduction in federal personal income taxes is, of course, the severe recession of 1981-1982. Real GNP only climbed back up to its previous 1981 peak in the middle of last year. Now that a recovery is underway the picture is improving.

The second thing of note in Table 2 is the distribution of the changes in real disposable income around the average. Not surprisingly, it displays the same pattern of growing inequality as Table 1. This is primarily because of the imposition of the federal tax and benefit cuts on top of a small average increase in disposable income. However, the distributional pattern of changes in real disposable income in Table 2 is also strongly affected by two other factors: (1) recent increases in state and local taxes and federal payroll taxes and (2) the extremely high levels of unemployment of the past two years. Both of these bear disproportionately on lower income families. It is not just that these families have received a less generous tax cut than higher income families; their taxes have actually risen as a proportion of their income. A comparison of 1984 to 1980 shows that families in the lowest income quintile now face a heavier federal tax burden, and both of the lower two quintiles now face higher total (federal, state, and local) tax burdens.* The combination of higher total tax burdens, the federal benefit reductions, and higher than average unemployment has translated into actual reductions in real disposable income for these two quintiles, despite the slight increase in overall family real disposable income.

Prospects for the Future

Let me now turn to the prospects for future changes in the growth and distribution of disposable incomes. In a nutshell, they are highly uncertain. If there are no further major federal policy changes, and the current recovery continues for the rest of the decade at the 3.5 - 4.0 percent average annual rate of real GNP growth assumed in the current CBO and administration projections, then the increase in the standard of living over the 1980s for the average American will be somewhat less than the 23 percent increase of the 1970s (and far less than the 31 percent increase of the

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* Since 1980 federal personal income tax burdens for lower income households have increased because they benefitted little from the ERTA rate reductions, while inflation has eroded the value of the zero bracket amount, personal exemptions, and the earned income tax credit. And, while state and local taxes and federal payroll tax burdens have not risen by quite as much as federal income tax burdens have fallen, these tax increases have a regressive distributional impact.

1960s).* And the distribution around that average should look something like that in Table 2, with higher income persons realizing higher relative gains than lower income persons.

But it is highly unlikely that the recovery will proceed unabated for seven straight years, and the large and growing structural deficits now facing us will have a major detrimental impact on the future growth rates of the economy and our standards of living if they are not soon reduced.** For this reason, I strongly applaud the efforts of members of this committee and others to initiate the politically painful steps necessary to bring future deficits within reasonable bounds. However, it is important to understand that the inevitable spending cuts and tax increases could have large further impacts on the distribution of disposable incomes. The budget cuts of the past three years have reduced federal domestic spending to date by about one and a half percent of the GNP, while federal taxes have declined by about two percent of GNP. Eliminating the structural deficit projected by CBO by the end of this decade would require a combination of additional program spending reductions and tax increases totalling in excess of five percent of GNP. Thus, the distributional consequences of whatever measures are taken deserve serious consideration, especially in light of the experience of the past three years.

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* The increase in real per capita disposable income is substantially less than that of real GNP because of population growth.

** In fact, both CBO and administration documents make clear that the high real GNP growth rates in their long run projections cannot be achieved without major deficit reductions.

Senator KASSEBAUM. Chairman Domenici has left, as I am sure you are aware, and asked me to take over, and I regret that I missed most of your comments. I think, Senator Chiles, if you have no comments, we will go on to Dr. Levy——

Senator CHILES. Madam Chairman, I want to thank all of the panel for being here and giving their testimony today. We are sorry that all of us cannot be here the entire time, because we would like very much to hear your testimony. But we thank you very much for your statements, and we certainly will study them, and they will be very important to us as we go forward.

Senator KASSEBAUM. Thank you.

Dr. Levy, Professor of Public Affairs, University of Maryland, it is a pleasure to welcome you.

STATEMENT OF DR. FRANK LEVY, PROFESSOR OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Dr. LEVY. Thank you very much, Madam Chairman.

My purpose here is to testify on a paper which I have written jointly with Dr. Richard Michel of the Urban Institute. That paper came out in the fall, and a lot of pieces of it have already been mentioned by earlier speakers this morning. For this reason, I will be very brief and summarize the three major points of the paper.

What we have tried to do in the paper is to look at changes in the level and distribution of aftertax family income from 1979 through 1984. The reason that we chose 1979 is because our perspective on these issues of economic growth and fairness holds that a President's policies have some importance, but a great deal of what happens to the economy comes from forces outside of the President's control or any one person's control.

For that reason, we think of the 4 years 1981 through 1984 not so much as President Reagan's first term in office, but as the second through fifth years after the second major OPEC price increase of the decade. If you look at the economic shape of the 1979 through 1984 period—rapid inflation, deep recession, recovery, very little net income growth—it looks exactly like the shape of the period after the first OPEC price increase in 1973. This perspective forms the background for the three results I want to present to you today.

AVERAGE FAMILY'S DISPOSABLE INCOME

We first ask the question: What will the average family's disposable income be in 1984?

We estimate that the average family's disposable income adjusted for inflation will be about $20,809. That is about $700 more than in 1980, just before President Reagan took office. It is about $460 less than in 1979, just before that second OPEC price increase.

As I suggested before, we should not be surprised. The result is sad, but we should not be surprised. Through 1973, family incomes were growing about 15 percent every 5 years. From 1973 to 1979, there was essentially no net income growth. And from 1979 to 1984, again, there was no net growth. Each of those OPEC price increases really threw the economy on its ear. To underline that point, if we had not had that first OPEC price increase, the typical family in 1979 would have had about $3,800 more dollars of income. If we had not had the second OPEC price increase either, a family today would have had about $7,100 more income than, in fact, it has. So the OPEC price increases created tremendous shocks under which an administration had to work.

AVERAGE TAX BURDENS

Second, we asked: How will average tax burdens have changed between 1979 and 1984?

That has been touched on quite a bit today, but let me just summarize it. We project this year that the average family will pay about $7,300 in taxes, and that is about $200 less—adjusted for inflation—than in 1979. The reasons for this small change have been well-stated. First, the major Federal tax cuts occurred in 1981, but you recognize that in both 1980 and 1981, there was a tremendous amount of bracket creep. A big piece of the 1981 tax cut went to just undoing that bracket creep. And there were increases in payroll taxes, temporary State income taxes, and so on. When you add all these increases together, you have tax burdens that are essentially unchanged between 1979 and now.

Finally, we ask what has happened to the shape of the family income distribution. Again, earlier testimony here summarizes our results well: the income distribution has become less equal. If you look at the poorest one-fifth of families, their income has dropped on average from $7,500 in 1979 to $6,800 this year. That is a 9-percent drop at the bottom of the distribution. If you look at the top one-fifth of families, they have decreased about a half a percent, from $39,300 to $39,150.

PRIMARY FORCES

What caused this growing inequity? You have to take two factors as given. First, inflation in the current structure of the economy, makes the income distribution less equal. When States are hit with big inflation, they freeze, and so AFDC benefits never go up as fast as inflation. For example, in 1980, we had a CPI that went up about 13 percent. If you ask how many States raised their AFDC benefits by 13 percent in that year, you do not need many fingers to count the answer.

Second, we know that unemployment and recession make the income distribution less equal. The costs of the recession are hardest on people who experience unemployment, but they are just a minority of the population. So already, starting in 1980, you had serious forces working to make the income distribution less equal, at least in the short run. You had inflation eroding welfare benefits; you had unemployment spreading the distribution out.

Since that time, the tax and transfer changes made by Congress and the administration have reinforced that trend. The basic trend was there, but cuts in welfare, food stamps, and the particular structure of tax cuts, which we talked about earlier today, have reinforced that.

I would say in summary, that we have had another 5 years with no progress. Our tax burdens have been about the same. We have just managed to hold our own. And the income distribution has become less equal. The primary forces for the lack of progress have been, basically, the path of the economy—that is, the economy battered by OPEC price increases—but government policy, especially in the area of inequality, has reinforced economic trends.

That really summarizes it, although the more detailed findings are in the statement, which I have submitted for the record.

If there are questions, I will be glad to answer them.

Thank you.

Senator **Kassebaum**. Thank you very much.

[The prepared statement of Dr. Levy follows:]

Statement Before the U.S. Senate Committee on the Budget

Frank Levy
School of Public Affairs
University of Maryland

and

Consultant, The Urban Institute

My testimony today is based on a paper[1] which I have written with Richard Michel of The Urban Institute. In the paper, we examine changes in the distribution of after-tax family income from 1979-1984. During this time, the income of the average family has not grown at all while the income distribution has become less equal. Both results largely flow from the 1979 OPEC price increase But the growth in inequality has been reinforced by recent tax but the growth in inequality has been reinforced by recent tax and spending changes. I will briefly set our paper's context and then summarize its three principal results.

Our paper's focus is a family's disposable or after-tax income. The Bureau of the Census regularly publishes family income statistics but this data is on a gross, or pre-tax basis. To obtain a measure of disposable income, we estimate the federal, state, and local taxes paid by families at different income levels. In addition, we augment family income by the estimated value of any Food Stamps received. We include Food Stamps because Food Stamps, unlike other in-kind benefits, are an almost pure cash substitute.

Our purpose in writing the paper was to examine how the level and distribution of disposable income changed between 1979 and 1984. This differs from assessing the impacts of a particular President's policies. While the income distribution depends on Presidential policies, it also depends on rainfall in the midwest, decisions of state and local governments, and a host

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1. "The Way We'll Be in 1984: Recent Changes in the Level and Distribution of Disposable Income." The Urban Institute, November 1983.

of other factors. In this election year we may think of 1981-1984 as President Reagan's first term. From an economic perspective, it is more accurate to think of this period as years two through five following the 1979 OPEC price increase. The 1979-1984 period closely resembles the six years following the first OPEC price increase in 1973: a rapid inflation, a serious recession, a recovery, and little net income growth.

Finally, our estimates were done early last year and so are subject to several weaknesses. The economic recovery is a little more vigorous than was believed at the time. Further, our estimates were unable to incorporate the 1983 Social Security Amendments. The Urban Institute will publish a revised set of estimates this spring, but the basic conclusions I summarize here will not change in any significant degree.

Having summarized the context, I will turn to the results. The numbers I give you are adjusted for inflation and are in constant 1982 dollars.

First, we project that in 1984, the average family will have disposable income of $20,800. This is about $700 more than in 1980, just before President Reagan took office and $460 less than in 1979, just before the OPEC price increase. (Table 1)

We should judge this result with sadness, but not with surprise. In the 1950's and 1960's, family incomes grew by about 17 percent every five years. But following the first OPEC price increase in 1973, the economy went six years with no net growth in family incomes. And now, after the second OPEC price increase, the economy will go through five years with no net growth in family incomes. Let me underline the point. Without the two major OPEC price increases, the average family would have had $3,800 more income in 1979 and $7,100 more income today.

Our second finding concerns tax burdens. We project that the average family will pay $7,300[2] in taxes in 1984, about $200 less than in 1979. In light of the 1981 federal tax reductions, this small reduction may apear suprising but it is easily explained. The inflation of 1980 and 1981 caused, as you know, a substantial amount of bracket creep. Thus part of the 1981 tax reductions only restored federal taxes to their 1979 levels. The 1981 tax reductions were further offset by increases in the payroll tax and increases in state and local taxes - particularly temporary increases in state income taxes. When these changes are combined, average taxes as a percentage of average income are almost unchanged in the two years.

Our final result concerns income inequality. Over the 1979-1984 period, the distribution of disposable income will have grown significantly less equal. Among the poorest fifth of families, average disposable income will have dropped from $7,500 to $6,800, a decline of 9 percent. (Table 2) Among the highest one-fifth of families, average disposable income will have fallen from $39,300 to $39,150, a decline of one-half of a percent.

Here, as in the case of average income, overall economic conditions were the driving force. Recession itself makes the income distribution less equal because a relatively small proportion of the population experience serious unemployment and

2. Again, these figures are in 1982 dollars.

these people bear most of the recession's costs. Inflation also makes the income distribution less equal because many poor people depend on programs like Aid to Families with Dependent Children (AFDC) whose benefits are usually increased much more slowly than inflation. Thus the trends toward growing inequality were well established in the inflation-recession of 1980.

Federal tax and spending policies since 1980 have reinforced these trends. Expenditure reductions in programs like AFDC and Food Stamps have further decreased income going to the bottom of the income distribution. Federal tax cuts have reduced tax rates while leaving standard deductions and exemptions unchanged. This form of tax cut is effective in offsetting standard bracket creep. It is less successful in offsetting the special bracket creep that affects low income workers. I refer next to the case where inflation pushes the worker's income beyond his exemptions and deductions and into the range of positive tax payments. Once he is in this range, a moderate rate reduction will do little to change it.

The relative impact of federal policy can be put in perspective by several short examples. The first concerns AFDC. Between 1979 and 1984, we estimate the average welfare recipient had a real benefit decline of 14 percent. About eight of these 14 points were due to the impact of inflation on state benefits. The other six points were due to budget reductions. As a second example, the typical Food Stamp recipients also lost about 14 percent in net benefits. Here we estimate that a portion of this reduction was due to the 1980 legislation which postponed a cost of living increase, but the majority was due to the budget reductions of 1981-1982. The third example concerns federal income taxes. In 1979, the poorest one-fifth of families actually received net federal tax credits of about $637 million. This amount, about half a percent of their income, arose because refunds under the Earned Income Tax Credit exceeded their federal tax liabilities. In 1984 this situation will be reversed so that the poorest one-fifth of families will pay $505 million or a positive one-half a percent of their income, in federal income taxes. Some of this change reflects demography. The low end of today's income distribution contains more unemployed and fewer elderly than it did five years ago and this accounts for part of the increased taxes. But the remainder comes from the low-end bracket creep I described earlier. When the one percent swing in federal taxes is added to increases in payroll and state and local taxes, the poorest 20 percent of families will pay about 11.5 percent of their income in taxes this year compared to 9.7 percent five years ago.

In summary, macroeconomic factors were the dominant force in increasing income inequality but policy was important as well.

I will close by commenting on the relationship between the work summarized in this paper and two issues that have received much recent attention: the disappearing middle class, and the increase in poverty rates.

The disappearing middle class is a great issue, full of drama and competing claims. Unfortunately, our paper has little to say about it. We show that from 1979-1984, the middle of the income distribution has experienced a decline in purchasing power. But this decline exists throughout most of the income distribution and reflects recent hard economic times rather than robotics or specific plant closings. If we look at the proportion of all income received by the middle of the distribution, it is about the same in the two years. Because the term "middle class" is open to many definitions, the issue cannot easily be settled. In particular, it cannot be settled by looking at data over the last several years when the economy was deep in what we hope is a temporary recession. Richard Michel and I are currently finishing a paper that looks at the question of the middle class and we will be glad to share it with the committee when we are finished.

Our work has a more direct connection to the issue of increasing poverty rates. A family is counted as poor when its income falls below a poverty standard which varies by family size and is annually updated for inflation. I noted earlier that our results show an erosion of real income, particularly at the bottom of the income distribution. This erosion directly corresponds to the rising proportion of people in poverty, detailed last week by the Census. And like the Census, the erosion we project owes somewhat more to inflation and recession than to specific benefit cuts.

I wish to thank the subcommittee for the opportunity to present these results. I will be glad to answer any questions which members may wish to ask.

Table 1

Approximate Path of the Average Family's Disposable Income, 1979-1984
(1982 dollars - income includes the value of Food Stamps)

1979	$21,270
1980	$20,110
1981	$19,403
1982	$19,283
1983	$20,141
1984	$20,807

Source: Urban Institute TRIM2 Simulations for 1979 and 1984. Author's calculations for 1980-83.

Table 2

Disposable Income of the "Average Family" in Each Quintile, 1979 and 1984
(1982 dollars - income includes the value of Food Stamps)

	Quintiles of Families				
1979	$7,546	$14,053	$19,623	$25,792	$39,348
1984	$6,833	$13,549	$19,131	$25,386	$39,158
Percentage Change	-9.4%	-6.5%	-2.5%	-1.6%	-.5%

Source: Urban Institute TRIM2 Simulations.

Senator **Kassebaum**. I feel like I have come in a little bit midstream here, in fact, not even midstream, so I hesitate to ask questions which could well be repetitive. But I guess from what you say, Dr. Levy, that everybody touched on tax policy—is that correct—as being something that you believe as a panel has contributed to the inequality of the budget figures at this point?

Dr. **Levy**. I think two out of the five, maybe.

VIEWS ON TAX REFORM

Senator **Kassebaum**. Well, let me ask all of the panel—I would be interested in knowing how you feel about tax reform. Is this anything that anybody has gone into, and what you believe would be a wise approach to tax policy at this point—if indeed, as you tend to believe, that it very much is a factor in the inequalities that are existent today—for those who believe that, let me ask you what you would do.

Dr. Levy.

Dr. **Levy**. So far, I have been more concerned with documenting what happened as opposed to what I would do. I uld defer to my other panel members.

Senator **Kassebaum**. I would think everyone, however, would agree that reducing the marginal tax rate is something the public wants and is indeed of benefit. Now, what has happened, of course, is the tax base is also shrinking, and that side of it tends to prove to be quite a problem.

Dr. **Palmer**. Well, I would simply offer the observation that it is going to be necessary, I think, to raise taxes somewhat over the next several years as a contribution to reducing the deficits. And, consistent with what you have just said, Senator, I think that the emphasis in those increases ought to be put on broadening the base to yield the additional revenue, rather than undoing rate reductions, as we have had in the past several years.

Now, it may be necessary for a temporary period of time to impose some sort of across-the-board increase like a surcharge, simply to allow the necessary time for congressional action to deal with the more difficult and complex issues that are involved in broadening the base. But the long run objective, clearly, in raising revenues, I think, ought to be to emphasize base-broadening, rather than rate increases.

Dr. **Bernstein**. In my testimony, first, I complimented the Congress on mitigating the severity of some of the cuts that the administration had proposed in 1981 and rejecting most of the cuts proposed in in the means-tested programs in 1982 and 1983.

With respect to the future, I express the hope that, while there has to be—in my view, anyway—a subtantial cut in the deficit, that one should not look to the means-tested programs, but to excess military expenditures—excess, in the sense that we are just paying too much for pieces of equipment—and whatever can be done in terms of eliminating unnecessary pieces of equipment, and to the tax structure. I think there does have to be a tax increase. I must say I would hate to see any tax increases now at the lower end of the scale. I think increases are going to have to be concentrated much more heavily on the middle and the upper levels of the income tax structure.

MEANS-TESTING ENTITLEMENT PROGRAMS

Senator **Kassebaum**. Did any of you address the entitlement area, which is, of course, the largest part of the budget, and the fairness, perhaps, of the question of whether we should go to means-testing the entitlement programs?

Was this something that was discussed, and does anybody have any thought on that?

Dr. **Palmer**. It was not discussed, Senator. I would say that, to the extent that the deficit is reduced through actions that focus on domestic spending, it is quite clear that those actions will have to come primarily in the so-called middle-class entitlement programs, medicare and social security being two of the major ones.

I think that if there are going to be those reductions in the domestic spending, then these programs will have to be considered, and I think a wide variety of means of trying to achieve certain reductions, that appear to be fair in their effects will have to be considered.

The possibility of introducing more income-testing, either through the tax system or on the income side, is one that I think needs to be considered. I certainly think that, for example, in the SMI premium in medicare would be a prime example where that may be necessary.

Senator **Kassebaum**. Thank you very much.

As I say, I feel that, coming late, I am not quite sure what has been asked and what might still be there to be asked that we could get your knowledge in addressing, but we very much appreciate the testimony this morning of everyone.

Thank you.

[Whereupon, at 11:17 a.m., the committee was adjourned, to reconvene at 2:15 p.m. this same day.]

Interfaith Action for Economic Justice

Members of **Interfaith Action for Economic Justice** are the mission boards or program units of national religious agencies working together for just and effective US food and agriculture, health and human services, and development and economic policies.

American Baptist Churches, USA
American Jewish Committee
American Lutheran Church
Baptist Joint Committee
  on Public Affairs
Bread for the World
Center of Concern
Christian Church (Disciples
  of Christ)
Christian Life Commission of
  the Southern Baptist Convention
Church of the Brethren
Episcopal Church
Friends Committee on National
  Legislation
Jesuit Social Ministries
Lutheran Church in America
Lutheran Church-Missouri Synod
Maryknoll Fathers and Brothers
M[illegible]an Church in America
N[illegible]al Council of Churches
  of Christ: Church World Service
Network
Presbyterian Church (USA)
Reformed Church in America
Union of American Hebrew
  Congregations
Unitarian Universalist Association
Unitarian Universalist Service
  Committee
United Church of Christ
United Methodist Church
World Hunger Education Service

Interfaith Action for Economic Justice, continuing the work of the Interreligious Taskforce on US Food Policy, speaks for itself and not its member agencies.

Paul Kittlaus
United Church of Christ,
Chair

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Statement Prepared for
Committee on the Budget
US Senate

February 28, 1984

Interfaith Action for Economic Justice is a coalition of 26 national Protestant, Jewish, Roman Catholic and ecumenical agencies that work together on federal legislation to achieve just and effective health and human services, food, development and economic policies, particularly as they affect poor people. Formed as the Interreligious Taskforce on US Food Policy in 1975, Interfaith Action speaks for itself.

We are pleased to present a statement for the hearings concerning fairness, a moral issue we consider central to the federal budget process and debate. The issue is whether current policies are "fair" and equitable in their effect on all segments of society, particularly economically disadvantaged persons. The change in the number of individuals deemed officially poor is one standard against which the policies can be measured.

Poverty and Inequality

The Census Bureau reported last year that the official poverty rate had risen to 15 percent of the population (34.4 million) in 1982--the highest level since 1965. That figure is 32 percent higher than when poverty began to rise significantly in 1978, an increase of 9.9 million in just over four years. A Census Bureau study released last Thursday, February 23 shows that even if the government had included the market value of non-cash assistance benefits in their measure, the poverty rate would have risen from 6.8 percent (15 million) in 1979 to 10 percent (23 million) in 1982--a 47 percent increase.

Specific statistics for 1982 are as follows:

* More than one child in five was poor;

* Some 47 percent of all black children were poor, compared to 17 percent of all white children;

* Some 36 percent of all female-headed households fell below the poverty line; among black female-headed households, 70 percent fell below the line;

* Some 36 percent of all blacks and 30 percent of all Hispanics were poor.

Moreover, poverty is not isolated in any one geographic area: there were 7 million poor in the Northeast; 8 million in the North Central area; 14 million in the South, and 6 million in the West.

In addition, there are several million more people, often referred to as the "working poor," whose income falls either under the poverty threshhold or within 125 percent of that level. The Census Bureau estimates that about 47 million people fall below 125 percent of the official poverty rate. Rudolph Penner, director of the Congressional Budget Office (CBO), predicts that the poverty rate will remain high for several years.

Income inequality--the gap in income between rich and poor segments of society--has increased concurrently with poverty, according to a recent Urban Institute report. Between 1979 and 1984 average disposable income for the poorest one-fourth of families will decline from $7,546 to $6,833, or 9.4 percent. Yet the richest one-fourth of families will experience only a 0.5 percent decline over the same period. The Institute also found that average taxes for that poorest group will increase by 2.2 percent during that time, while the richest group's average taxes will decrease by 0.5 percent.

Causes

Briefly, we believe that there are two primary explanations for this situation: the recent recession and accompanying unemployment, and the federal tax and expenditure policies enacted since 1981.

Programs targeted to low income people represent less than 10 percent of the budget. Yet Congress reduced appropriations for those programs by 28 percent from 1981 to 1983. No other section of the budget has been cut as severely. A 1983 CBO study concluded that Congress had reduced outlays for "income security" programs by over $27 billion since 1981. As a result, a household with an average income of $10,000 or less a year will lose twice as much as the average higher-income household.

The 1981 and 1982 tax legislation exacerbated the inequality between the richest and poorest in our society. Under the three-year individual tax cut enacted, taxes will fall only for those families earning $30,000 or more. Real taxes for persons earning less than $10,000 will increase by 22 percent from 1980, and persons earning $10-15,000 will pay 7 percent more. The inequality between individuals and corporations has also increased; the corporate share of federal taxes was greatly reduced and the individual taxpayer share greatly increased in the 1981 law. The corporate share of federal revenues has declined dramatically in recent years--and will continue to do so throughout the decade.

A 1983 Congress Joint Committee on Taxation study documents the increased tax burden on the poor during the past five years. In 1982 federal payroll and income taxes took 9.6 percent of a four-person family's income at the poverty level, a 5.6 percent increase over 1978. Because of the diminishing impact of the Earned Income Tax Credit, larger families at the poverty level paid even more taxes--10.3 percent of their income. The tax burden for poverty-level income families of four people will increase to 10.1 percent this year. While the 1981 and 1982 tax acts contained many tax reductions for wealthier taxpayers, they failed to include adjustments in the zero bracket amount or in the Earned Income Tax Credit. In the past, such adjustments have been made to assure that the hardships faced by poor people are not exacerbated by our tax system.

While the military budget is not a direct cause of the increase in poverty and inequality, it certainly affects the amount of resources available to address the problem. Since 1980 the military budget has increased by 52 percent in constant dollars. FY 84 outlays for military and military-related items (national defense, security assistance, and military uses of space technology) equaled $245 billion. Two-thirds of all federal revenues (excluding trust funds) go for military spending and interest on the debt.

FY 85 Budget

Once again, the Reagan Administration proposes significant cuts in domestic social programs. Many of the cuts proposed for means-tested entitlements last year are recommended again. This year, however, the majority of cuts would come from a 21 percent reduction in appropriations for discretionary programs such as Head Start, low income energy assistance and compensatory education. As in the past three years, the Administration's proposals would have a disproportionately adverse affect on children, minorities and women--particularly women who are single heads of households.

On the other hand, the Administration proposes a 13 percent real increase in defense spending and tax expenditures that would reduce revenues from corporations and individuals by $88 billion and $266 billion, respectively. With these proposals the Administration expresses an apparent willingness to make real increases in federal spending programs--in spite of a serious deficit problem--provided the spending is viewed as "necessary". In the view of the many religious agencies working through Interfaith Action, the alleviation and elimination of poverty are necessary undertakings. It would cost less to close the poverty gap--raising the income of all American families to the poverty threshhold--than it would to finance President Reagan's requested increase in military spending.

Recommendations

We do have the resources to enact just, equitable and humane fiscal policies in this country. The question is not one of possibility but of choice. There is no need to reduce funding for domestic human needs programs targeted to low income people; there is no excuse for such action at a time when hunger and poverty are documented national problems. On the contrary, there is a great need to increase expenditures for programs for the poor. It is possible to do that without increasing the deficit if Congress will re-examine our national priorities, revenue and spending policies. Therefore, Interfaith Action strongly urges this Budget Committee to reject all proposed cuts in domestic human needs programs targeted to low income people and to increase the spending ceiling for those programs.

COALITION ON BLOCK GRANTS
AND HUMAN NEEDS

February 1, 1984

Dear Member of Congress,

As debate on the federal budget begins anew, the Coalition would like to inform you of its overall views for fiscal 1985.

As last year, we believe there must be at least a restoration to past levels and, preferably, increases in means-tested entitlement and discretionary programs serving the poor. Three years of inflation have compounded the cuts these programs suffered in the Omnibus Budget and Reconciliation Act of 1981. In AFDC, for example, the Congressional Budget Office states that actual spending in FY 83 was 10 percent less than what it would have been before passage of OBRA.

The Coalition also believes it is urgent that Congress halt the inordinate growth of military spending and move to correct the inequities of past actions by enacting progressive tax measures.

This marks the first time in its three-year existence that the Coalition, not just its individual members, has spoken to the issues of defense spending and taxes. We will be examining them in greater depth in the coming months. The Coalition has always endorsed adequate funding for programs addressing human needs as a moral imperative. As this goal is being drawn inextricablyinto the debate on other national priorities and the federal deficit we insist on being participants in the larger debate.

We are disturbed to learn that the Administration is seeking a 13 percent increase for the defense department while calling for more than $9 billion in domestic cuts. Forty percent of all domestic cuts ($3.7 billion) of the $9.2 billion would come from programs targeted on low-income individuals and families despite the fact that these programs make up only 19 percent of the domestic budget. In addition, the Community Services Block Grant, legal services program, Work Incentive Program and state education opportunity grants would be abolished. The new budget includes reductions in real appropriations levels for financial aid for needy students, low-income housing, low income energy assistance, compensatory education for disadvantaged children and job training, among others.

Such reductions, on the heels of the last three years, would be intolerable for low-income and other needy groups. Although the economy may be improving in some respects, millions of people continue to face severe economic and personal difficulties exacerbated by the recession.

The current unemployment rate of 8.2 percent is still well above the 7.2 percent rate in July 1981 and may only decline by the end of fiscal 1985 to 7.5 percent, according to the Administration's predictions. Such levels are far beyond what Americans have come to view as acceptable. The hardship of being jobless is augmented by the withdrawal of government supports. For example, as of December, only 39.6 of the unemployed were receiving benefits compared to 78 percent during the 1975 recession.

As you know, certain groups continue to bear a disproportionate share of the burden. The December unemployment rate was 49 percent for black youth, 20 percent for all 16-19 year-olds, 17.8 percent for blacks, 11.6 percent for Hispanics and 10.7 percent for women heads of household. The 1985 budget must address their particular needs.

With 60 percent of the 9.2 million jobless identified as structurally unemployed by Martin Feldstein, chair of the Council of Economic Advisers, the Coalition does not see much chance for improvement in their circumstances in the coming year. Add to them the 1.5 million discouraged workers and 5.7 million working part-time because they cannot find full-time jobs, and we see a great need for restoring federal income and in-kind assistance.

It is time that Congress begin to correct the redistributional effect of OBRA, which in 1983 left the 19 million households with less than $10,000 annual incomes with a net loss of $241 and the 1 million households in the over $80,000 income range with a net gain of $15,130.

Members of the Coalition are prepared to work with you in the coming year to find ways to more adequately meet the needs of low-income families and individuals without adding to the federal deficit. We are in regular communication with 150 Washington-based organizations and 50 state coalitions, many of them representing low-income community groups. We are sending to the state and local groups information on the President's budget request and will keep them informed on Congressional budget action throughout the year.

As you begin you budget deliberations, we the undersigned urge you to reject any proposed cuts in programs serving low-income people and to consider restorations and increases.

Fifty-seven national organizations representing women, children, elderly, handicapped, religious, civil rights, labor, urban and rural groups and thirty-six organizations representing state and local coalitions signed the above letter to members of Congress.

Coalition on Block Grants
and Human Needs
Letter to Congress on the
FY85 Budget, February 1, 198

NATIONAL ORGANIZATIONS

AMERICAN ASSOCIATION OF UNIVERSITY WOMEN
AMERICANS FOR DEMOCRATIC ACTION
CENTER FOR COMMUNITY CHANGE
CENTER FOR BUDGET AND POLICY PRIORITIES
CENTER FOR LAW AND SOCIAL POLICY
CHILDREN'S DEFENSE FUND
CHILD WELFARE LEAGUE
COALITION FOR A NEW FOREIGN AND MILITARY POLICY
COALITION OF 100 BLACK WOMEN
COMMITTEE FOR A SANE NUCLEAR POLICY (SANE)
COMMUNICATION WORKERS OF AMERICA
COMMUNITY NUTRITION INSTITUTE
COUNCIL OF JEWISH FEDERATIONS
FAMILY SERVICE AMERICA
FOOD RESEARCH ACTION CENTER
FRIENDS OF VISTA
FULL EMPLOYMENT ACTION COUNCIL
INTERCHANGE
INFORMATION CENTER FOR HANDICAPPED INDIVIDUALS
INTERFAITH ACTION FOR ECONOMIC JUSTICE
JOBS IN ENERGY PROJECT
LUTHERAN COUNCIL IN THE U.S.A., Office for Government Affairs
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RURAL AMERICA
RURAL AMERICAN WOMEN, INC.
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SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO
UNION OF AMERICAN HEBREW CONGREGATIONS
UNITED CHURCH OF CHRIST, Office for
  Church in Society
UNITED METHODIST CHURCH, General Board of
  Church in Society
WASHINGTON AREA TRAINING CENTER
WOMEN'S EQUITY ACTION LEAGUE
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STATE COALITIONS

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COALITION OF CONSCIENCE OF DELAWARE
COLORADO CATHOLIC CONFERENCE
COLORADO SOCIAL LEGISLATION COMMITTEE
COMMUNITY COALITION FOR A FAIR BUDGET
  OF WILIMINGTON, DELAWARE
CONGRESS FOR HUMAN SERVICES IN ALABAMA
D.C. COMMISSION FOR WOMEN
DELWARE PUBLIC ASSISTANCE TASK FORCE
  Rev. David Doering
JOYCE S. HARMON, BLOCK GRANT ORGANIZER,
  MAINE CONFERENCE UNITED CHURCH OF CHRIST
FLORIDA CHAPTER, NATIONAL ASSOCIATION OF
  SOCIAL WORKERS, INC.
FLORIDA PROJECT BLOCK GRANT
GRAY PANTHERS OF METROPOLITAN WASHINGTON
THOMAS H. HUDGINS, COMMUNITY HOUSING, INC.
  DELAWARE
ILLINOIS COALITION AGAINST REAGAN ECONOMICS
KENTUCKY ACTION FOR HUMAN NEEDS
LOUISIANA HUNGER COALITION
MASSACHUSETTS HUMAN SERVICES COALITION
MINNESOTA COACT
MISSISSIPPI HUMAN SERVICES COALITION
NEBRASKA COALITION FOR COMMUNITY HUMAN SERVICES
NEWCASTLE COUNTY NUCLEAR FREEZE CAMPAIGN
NEWARK PEACE FELLOWSHIP - DELAWARE
NEW MEXICO YOUTH WORK ALLIANCE
NORTH CAROLINA COALITION ON BLOCK GRANTS
NORTH CAROLINA HUNGER COALITION
OKLAHOMA COALITION FOR FAIR BLOCK GRANTS
PORTLAND WEST NEIGHBORHOOD PLANNING COUNCIL - MAINE
RHODE ISLAND ALLIANCE FOR COMMUNITY JOBS
SOUTH CAROLINA FAIR BUDGET COALITION
STATEWIDE EMERGENCY NETWORK FOR SOCIAL
  AND ECONOMIC SECURITY OF NEW YORK STATE (SENSES)
TEXAS ALLIANCE
CROSSROADS URBAN CENTER OF UTAH
VIRGINIA ACTION
WOMEN'S INTERNATIONAL LEAGUE FOR
  PEACE AND FREEDOM - DELAWARE CHAPTER
CHARLIE A. ZOELLER, A.F.S.C. EXECUTIVE DIRECTOR
  DELAWARE PACEM IN TERRIS
COLORADO CHAPTER, National Assn. of Social Workers

COALITION ON BLOCK GRANTS AND HUMAN NEEDS

FACT SHEET ON THE BUDGET DEFICIT

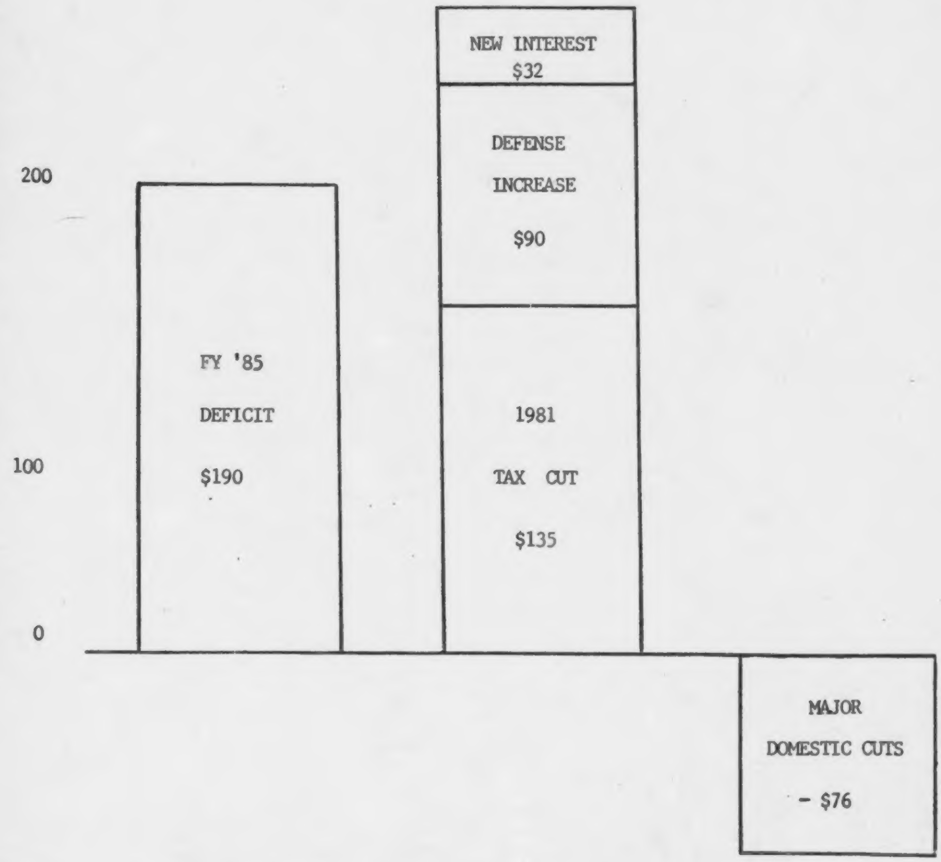
The Coalition believes that Congress and the President should act this year to reduce the record-high deficit without cutting programs for low-income people. In fact, a "downpayment" should be made toward restoring these programs to their pre-1981 service levels.

- Social spending did not create the current deficit problem. Since 1981:
  - — The deficit grew from $60 billion in FY 80 to a projected $190 billion in FY 85.
  - — The defense build-up, tax cuts and higher interest costs have totaled $257 billion, according to CBO.
  - -- "Low-income benefit programs" have been cut by $ 8 billion, according to OMB. (AFDC, SSI, Earned Income Tax Credit, Medicaid, food stamps, WIC, child nutrition, commodity food distribution, housing and energy assistance.)
  - — These, plus 11 other programs serving low-income people (including jobs, health and social services), have been cut by $107 billion.*
- Deciding how to curb the deficit will require a value judgment by Congress.
  - — CBO Director Rudolph Penner testified February 7 that choosing between tax increases and spending cuts will be a "matter of social values."
- The dramatic increase in federal debt service is draining resources that could go toward meeting human needs.
  - — Under the proposed Reagan budget, we will be paying $2.19 in interest on the public debt for every $1.00 in low-income benefit programs as defined by OMB.
- Unless a conscious decision is made to exempt low-income programs from further cuts, low and moderate income people will pay a disproportionate cost through higher interest rates, new program cuts or the regressive tax measures now under discussion.

*CBO estimates of 1981-85 reductions in major human resource programs (August, 1983), updated by the Center on Budget and Policy Priorities to take account of the President's FY85 budget request and inflation projections. The CBO in August estimated a $76 billion reduction in major domestic programs due to legislative changes from March 1981 to March 1983.

Distributed by: Coalition on Block Grants and
Human Needs February 27, 1984

COMPONENTS OF THE DEFICIT PROBLEM DO NOT INCLUDE SOCIAL PROGRAMS
(Changes 1981 - 1985 in Billions of Dollars)



Dollar changes resulting from legislative actions March 1981
through March 1983, estimated by the Congressional Budget Office.

COALITION ON BLOCK GRANTS AND HUMAN NEEDS

February 28, 1984

SUPPORT A FAIR FY 85 FEDERAL BUDGET

The Coalition on Block Grants and Human Needs includes over 100 national organizations — religious, civil rights, labor and social services groups among them — concerned about the effect congressional budget decisions will have on low income Americans. The organizations participating in the Coalition and their millions of individual members ask Congress to arrive at a fiscal 1985 budget that is fair.

As it begins work on the new budget, the Coalition urges the Congress to place top priority on adequate funding for means-tested entitlement programs — Medicaid, child nutrition, food stamps and Aid to Families with Dependent Children.

- These programs have been cut $8 billion from what would have been spent in FY 84 prior to enactment of the 1981 Reconciliation Act.
- President Reagan's proposed budget for FY 85 would take another $3 billion from means-tested entitlement programs.
- Means-tested entitlement programs benefit the most needy and vulnerable in our society, the segment disproportionately burdened by budget cuts of the past three years, the segment that received no net gain from the 1981 tax cut.
- From 1979 to 1982, the rate of poverty increased between 28 and 47 percent depending upon which Census Bureau measure is used. Rising homelessness is but one illustration of the hardship associated with this new poverty.

Means-tested entitlement programs provide basic necessities to low-income people — food, health care and income support. Prudent increases now will prevent greater remedial costs later. Congress must begin to bring funding back to its pre-1981 level in these programs.

The Coalition on Block Grants and Human Needs also urges support for the other federal programs crucial to the lives of low income people. Funding increases for jobs, low income energy assistance, low income housing, Chapter I education, Title XX social services and others are the prerequisites of a fair 1985 budget.

NEWS RELEASE
Room H2-344
House Office Building
Annex #2
Washington, D.C.
20515

The
Congressional
Black
Caucus

February 1, 1984
For Immediate Release

Contact:
202/225-7084

CONGRESSIONAL BLACK CAUCUS

RESPONSE TO PRESIDENT'S 1985 BUDGET/ STATE OF THE UNION

CBC 1984 LEGISLATIVE AGENDA

When President Reagan addressed the nation last week he ignored the key problems facing America in 1984 - Unemployment and the Growth of Poverty in America. Five million Americans have been added to the ranks of the poor in the past three years.

For 28 million Black Americans, the President's slogan 'America is Back' had little meaning. At no time in memory has an Administration shown less appreciation for the problems affecting minorities and the poor.

While our President is encouraged by the economic recovery, he is unwilling to acknowledge that its benefits have been split-level at best. The condition of Blacks continues to stagnate and deteriorate; Black unemployment remains at 18% yet he offers no approach designed to reduce it.

Today, more than one in three Black Americans lives below the poverty level, yet his Administration and its many blue ribbon Commissions seemingly can find no hunger in the soup kitchens nor despair among the long lines of jobless.

Responding to the $180 billion budget deficits created by his program of increased military spending and tax breaks for corporations and the well-to-do, the President now proposes that Congress grant him line-item veto authority. We do not believe this offers a meaningful approach to reducing the federal debt.

Roughly 85% of the budget is beyond the reach of this proposed legislative veto: 58% is comprised of entitlement programs and interest on the federal debt; 28.5% is military spending which is obligated almost entirely through multi-year contracting. Hence, there is 15% of the federal budget which encompasses all discretionary domestic spending.

As such, the only area Reagan is likely to use the line-item veto is on programs which help the poor, such as Legal Services, WIC, Headstart, or federal housing assistance.

Those of us in the Congressional Black Caucus are pledged to oppose this veto proposal, even on a one-year basis, as it is simply a blank check for the President to cut what remains of federal efforts for the disadvantaged.

PRESIDENT REAGAN'S 1985 BUDGET PROPOSAL

President Reagan's 1985 budget offers little hope that circumstances will improve for Black and poor Americans. It is a discouraging message that domestic needs will remain unmet in order to finance a $48 billion increase in military spending.

The President proposes significant reductions in Income Security programs. A $4.6 billion cut in funding for Unemployment Compensation is recommended. The President calls for a $2.6 billion reduction in funding for Subsidized Housing. He has also proposed a $652 million cut in AFDC funding to be achieved by an unestablished work program for AFDC recipients.

The President proposes to reduce the budget for Community and Regional Development by nearly $900 million. Of the intended cuts, $600 million in rental rehabilitation and rental development grants would be eliminated, and economic development assistance funds would be reduced by $240 million.

The President also proposes to cut housing credits for the elderly and handicapped by $133 million, rural housing by $164 million, and small business assistance by $29 million. Despite continuing high unemployment a $527 million reduction is proposed for State Employment services.

The President proposes to cut TRIO programs for disadvantaged students desiring a college education in half, and reductions in funding for Handicapped Education of $25 million, cutting $239 million from College Guaranteed Student Loans and the entire $628 million appropriation for State Student Incentive Grants.

The President's budget also calls for a $350 million reduction in funding for Community Service Programs, a $27 million reduction for Family Social Sevices, and a $164 million reduction in payments for Federal employee health benefits.

As a consequence of the Reagan budget request, the Congressional Black Caucus intends to introduce its Budget alternative, for the fourth year, as part of the debate over our nation's priorities.

The CBC Budget has provided a comprehensive alternative in areas of spending, revenues, and deficit reduction. It has become an important part of Congressional budget deliberations, and it has been strongly endorsed by labor, civil rights, and religious organizations.

CBC LEGISLATIVE PRIORITIES FOR THE 98th CONGRESS

The 21 Members of the Caucus produced a solid record of achievement in 1983. We intend to continue our efforts towards the enactment of a fiscally and morally sound budget, programs to reduce unemployment particularly among youth, and to reverse the Reagan Administration trends in abandoning our national commitment to civil rights. Among the items on our 1984 Legislative Agenda:

Employment

While unemployment has declined marginally from its post-depression high of 10.8% in December '82, it remains a problem of tragic dimensions.

> 9.2 million Americans are actively but unsuccessfully seeking work
>
> Another 1.5 million discouraged workers have given up the search for employment

When these persons are added to almost 6 million individuals who are working part-time because they cannot find full-time jobs, nearly 17 million Americans have been left out of the recovery.

For Black Americans, the dimensions of this problem are catastrophic

> Blacks are unemployed at more than twice the rate for Whites, 17.8% compared to 7.1%
>
> Moreover, the rate for Blacks continues to climb while White unemployment is decreasing.
>
> One out of every two Black teenagers is jobless compared with one out of every six White teenagers.

While the disparity for Blacks is the most pronounced, this Administration's neglect disproportionately affects other segments of our society, including Women, Hispanics, and Older Workers. Funds for job training and retraining have been cut 33% since this Administration took office.

Since the unemployment problem us most aggravated among our youth, the Congressional Black Caucus is proud that its senior member, Rep. Augustus Hawkins, who chairs the Subcommittee on Employment Opportunities, will soon introduce legislation for a Youth Incentive Employment program.

This initiative will be modeled on successful demonstration efforts which provided employment and self-help opportunities to all eligible economically disadvantaged youth living within targeted areas. Over one million youth would be affected by the Hawkins proposal, which addresses this most serious aspect of structural unemployment.

Civil Rights

Under the Reagan Administration there has been an unprecedented attack on civil rights enforcement, which seeks to reverse three decades of progress for Blacks, other Minorities, and Women.

It is regrettable that unlike the past six Presidents, Ronald Reagan could not tolerate an independent U.S. Commission on Civil Rights. His insistence on silencing any questioning of the civil rights implications of Administration poliices has effectively dismantled the integrity of this watchdog against discrimination. We are disappointed at the way the Reagan Rights Commission has begun its work and hope they will begin to fulfill their mandate by thoughtfully appraising the federal laws and policies which undermine efforts to erase discrimination.

Because the Commission has set upon a course to renounce existing Commission policies -- policies grounded in federal law -- without first studying those policies, we are concerned that they have abandoned their fact finding role. We have, therefore, joined the Congressional Hispanic Caucus and the Congressional Caucus on Women's Issues in writing to the Chairs of House Committees and Subcommittees with oversight responsibility for issues related to civil rights and equal opportunity asking that they be especially viligent in monitoring such matters.

There is little reason to expect this Administration to be less vitriolic in unravelling civil rights protections in 1984, and the Caucus will take the lead in opposing the Reagan philosophy. Just last week, a North Carolina redistricting plan, approved by the Justice Department under requirements of the Voting Rights Act, was overturned by three federal judges because it effectively denied legitimate political participation to Blacks. This was only the second time in history that a federal court overturned a statewide redistricting plan that had received Justice Department approval.

We view the nomination of Edwin Meese to be Attorney General as yet another move to reverse civil rights gains. Mr. Meese has been a key architect in the Administration's strategy to dismantle effective civil rights enforcement. We will actively oppose his confirmation, and have asked to testify when the Senate Judiciary Committee convenes its hearings.

Hunger

In contrast to the callous statements by Reagan's top officials and the benign neglect of his Hunger Commission, the Congressional Black Caucus sees hunger as a real problem in America. The policies of this Administration have only worsened the problem since, between 1982-1985:

> some 800,000 people will be denied food stamps
>
> 3 million students will be dropped from the School Lunch program
>
> 500,000 students will no longer be allowed to participate in the School Breakfast program
>
> 1 million Senior Citizens have had their food stamp benefits curtailed.

The Caucus believes adequate funding must be provided for federal nutrition programs as a first step toward eradicating the resurgence of hunger in our land. We also support the resolution authored by our Vice Chairman Mickey Leland (D-Texas) to establish a House Select Committee on Hunger. This problem is serious enough to require special attention, and it is expected that this measure will come before the House during February.

Black Infant Mortality

The Congressional Black Caucus has requested hearings by the Energy & Commerce Oversight & Investigations Subcommittee, to determine reasons for Reagan Administration delays in responding to a formal petition regarding Black Infant Mortality.

This petition filed by Public Advocates, outlines specific regulatory steps which the Health & Human Services Department could take to reduce growing levels of Black infant mortality. On average, Black infants die at twice the rate of White babies, and in some urban centers the mortality rates for Black babies is four times higher.

The Caucus has asked Chairman John Dingell (D-Mich) for hearings, because after a five month delay in addressing the specific recommendations made by Public Advocates, HHS Secretary Margaret Heckler admitted the disparity by appointing yet another Commission. The Caucus believes this issue is literally being studied to death -- the needless deaths of thousands of Black newborns. Federal maternal prenatal care programs have been proven effective -- and some $3.5 billion could be saved by providing adequate prenatal care to all low-income women. Instead, the Reagan budget calls for cutting 260,000 recipients from the WIC program by fiscal '85.

Access to Education

Enactment of the Higher Education Act in 1965 dramatically expanded access to college for minority and other low-income students. Based upon recent national data, it is clear that much of this progress is being eroded under the Reagan budget scalpel.

Student financial aid programs that were created to enable disadvantaged students have been expanded to middle and upper-income groups without commensurate funding increases. As a result, the numbers of Blacks enrolling in college has remained at a standstill while the number who have graduated from high school has risen 20%. Without addressing this problem, the Administration has asked that funding for the TRIO programs be cut by 50% in 1985. These are exactly the programs which enable talented youth from disadvantaged backgrounds to enter college.

The Caucus believes that extension of the Higher Education Act, which expires in 1985, is a top priority. We further endorse the proposals which Rep. Paul Simon (D-Ill) has put forth to better target student aid on the needy and to strengthen federal support for traditionally Black Colleges which still produce 50% of all Black baccalaureate degrees. This measure also includes an Inmate Education program, proposed by Rep. John Conyers (D-Mich) to establish $75 million in grants to states for a wide range ofeducational, vocational and job training activities for individuals in correctional facilities.

Human Rights and Foreign Affairs

In matters related to foreign policy, the Caucus will continue to speak out against this Administration's policies of military intervention and to urge the adoption of strong economic and political sanctions against apartheid. The Caucus strongly supports Vice Chairman William H. Gray's amendment to the Export Administration Act prohibiting new U.S. investment in South Africa which overwhelmingly passed the House last year. This will shortly be considered in a House-Senate conference on the Export bill. We are further pledged to fight efforts to undermine home rule for the District of Columbia through Congressional repeal of its law divesting City funds from companies engaged in business with South Africa.

The Caucus will also shortly issue the report from its fact-finding mission to Grenada, and accompanying legislation to augment essential economic aid for that nation and the Eastern Caribbean. Other priorities will include an urgent supplemental appropriation to respond to the growing famine in Africa, and efforts to adjust the status of Haitian nationals now in the United States.

Minority Enterprise

The Reagan Administration has done more to thwart Black and other Minority business owners' efforts to achieve economic parity than any Administration in the last 20 years. There are three clear examples of their benign neglect:

In 1983, the percent of contracts to MBE's was only 3.1% which is a decrease from the 1982 level of 3.2%;

The Administration continues to seek elimination of the SBA Direct Loan program, one of the few sources of financing for Black and other Minority business owners;

On December 22, 1983 the SBA published proposed rules to restructure its Minority Business 8(A) program. These proposed regulations are a clear signal to the Minority business community that this Administration is not committed to economic parity.

As Chairman of the Small Business Committee and the CBC Minority Enterprise Brain Trust, Rep. Parren Mitchell (D-Md) will again take the lead by providing aggressive oversight of this Administration's total failure in encouraging Black economic progress, and will seek to redirect federal policies in this regard.

EDUCATION

THURSDAY, MARCH 1, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, beginning at 9:37 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee), presiding.

Present: Senators Domenici, Andrews, Gorton, Chiles, and Exon.

Staff present: Stephen Bell, staff director; and Jan Lilja, senior analyst for human resources group.

For the minority: Richard N. Brandon, staff director; and Janet Holtzblatt, senior analyst for education, training, employment, and social services.

Chairman DOMENICI. All right.

We are going to start.

We are most appreciative our witnesses are here and if we could start on time.

OPENING STATEMENT OF CHAIRMAN DOMENICI

This past year has been a year of great public discussion and debate regarding all facets of education in the United States. Several public reports and commissions have focused on the need to improve the education of America's children. Many States have moved ahead with their own plans and programs to provide educational excellence in their public schools. As a former schoolteacher, as a U.S. Senator, and as a parent, I have followed these developments with great interest and with great concern.

The hearing today, then, will focus not only on the President's budget proposals for Federal education programs, but will take stock of some of the profound change occurring in American education—the report of the Commission on Excellence; and what individual schools, school districts and States have done to improve the quality of education.

It is often stated that education is a Federal concern, a State's reponsibility, and a local function. I believe this to be true. However, I do not believe that because the primary responsibility for education is at the State and local level, that the Federal Government is without a role in education or a commitment and responsibility to its improvement.

EDUCATION FUNDING AT ALL-TIME HIGH

For this reason, I am very pleased that Federal education funding reached a historically high level in 1984. Appropriations of $15.4 billion in a time of historic deficits is certainly a measure of congressional commitment and concern about the quality of education available to America's children.

I have heard the argument that Federal education expenditures have not kept pace with the rate of inflation, and that Federal expenditures for education—even if at an all-time high, have lost their real value.

However, from a longer term prespective, it is fair to say that the Federal Government has maintained its commitment to American education. Briefly, since 1970, spending on education has surpassed the rate of inflation. Between 1970 and 1984 Federal expenditures for education have increased 227 percent. During this same time period, the consumer price index increased 169 percent.

SUCCESSFUL AREAS OF INITIATIVE IN EDUCATION

But this commitment is evident in other ways than money. Over the last 3 years, the Federal Government has had three successful areas of initiative in education.

The first of these initiatives has been to grant State and local education agencies more discretion and flexibility in the use of funds.

The second Federal initiative has been to focus student aid programs on those students who are the neediest. This has resulted in funding increases for Pell grants and other important programs.

The third Federal initiative has been to focus national attention on the quality of education available to America's children. As an example of this initiative the Secretrary of Education has established a program to recognize exemplary secondary schools. I am very pleased that a principal of one of these schools has joined us here today to share her thoughts with us.

Despite these advances, I realize that our schools are not as good as we would want them to be, and that we cannot dare to become complacent. Yet, I am very hopeful for the future of education in our country. I believe that the present national debate over quality and equity in education is helpful. Once again, we are all remineded of the importance of education to America's future, and once again, we must renew our commitment to a strong American educational system.

As an example of my commitment to the future of education, this week I joined with Senator Chiles in introducing legislation to reauthorize the vocational education program and to focus the Federal effort on improving the quality of vocational education and expanding access to the program. I am also hopeful that before this session ends, the science and math education bill, which I strongly support, will be on the President's desk waiting for his signature.

I would like now to introduce our witnesses, who have taken the time out of their busy schedules to join us here today.

We are honored today to have the Secretary of Education, Dr. Terrel H. Bell. Dr. Bell, as we are all aware, has been the primary inspiration behind the Commission on excellence and many of the other Federal education initiatives which I have just discussed.

Following Dr. Bell's testimony, and a brief time for questions, we will hear the testimony of a distinguished panel of witnesses.

First, Dr. Jo Ann Krueger, principal of Manzano High School, in Albuquerque, N. Mex. Manzano High School was selected this past year by the Department of Education as one of the Nation's outstanding secondary schools.

Second, Dr. Allan Odden, who is an expert on State education policy and school finance, from the Education Commission of the States.

Finally, Dr. Patricia Albjerg Graham, dean of the Harvard Graduate School of Education and former director of the National Institute of Education.

I thank all of you for joining us and look forward to hearing your testimony.

I will be pleased to yield to my good friend, the Senator from Florida.

OPENING STATEMENT OF SENATOR CHILES

Senator Chiles. Thank you, Mr. Chairman.

Good morning, Secretary Bell.

It is our pleasure to have you with us.

Despite the administration's early attempts to dismantle the Department of Education, you have kept the focus on the need to keep improving educational services in the United States. Whatever support you have received from the administration, I happen to think has been more in "form" than financial, and I admire your tenacity.

In our hearings so far, one problem seems to come up over and over again. The problem is that it doesn't look like we will be able to reach the goals in the President's State of the Union by following the policies prescribed in the President's budget.

EXCELLENCE IN EDUCATION

I'm afraid we run into the same problem in education. The President spoke of promoting excellence, but the budget doesn't go very far in pursuit of that goal.

I certainly agree with the President when he says that excellence in education does not begin in Washington. Education has traditionally been the primary responsibility of State and local governments serving the needs of students and their parents. But Washington must be the catalyst if we are to meet the needs for training young people to meet the demands of a high-tech world. And I find no boldness in this budget on education.

I find only the most modest of increases in programs specifically targeted on excellence. Moreover, the $50 million extra for the math and science program is a pale shadow compared to what authors of congressional bills believe is necessary to get this very important initiative going.

I'm not sure this budget does as much as we could to keep us competitive with the best in the world and I doubt that it does enough to help the less gifted become the best they can be.

I know the budget has an additional $250 million in it for flexible program; that means block grants to the States. Grants may provide and encouragement to the States, but they do little to assure that the States won't fund some educational services at the expense of others. I note, for example, that programs for education of disadvantaged students are actually reduced by $200 million in this budget. I also note the request for the National Institute of Education is still $20 million below the 1981 request. It sounds to me that when it comes to education, the President says "more", but the budget says "not enough."

VOCATIONAL EDUCATION

Nor does the budget seem attuned to the needs of the economy. We are currently undergoing a high-tech revolution. It would seem to me that there has never been a time in our history when government should have a stronger interest in furthering the goals of vocational education. My colleague and good friend, Senator Domenici, and I have, this week introduced legislation to provide this guidance. The administration, by contrast, proposes to block-grant vocational education. I think that sidesteps a clear responsibility.

The White House says cutting the deficit and building a strong economy is in the national interest. I certainly agree.

We are also told a strong national defense is in the national interest, and I agree with that, too.

IMPROVING EDUCATION CRUCIAL TO NATIONAL INTEREST

But I think we ought to understand improving education is just as crucial to our national interest. And although it's fine to promise excellence in education, I'd feel a lot better if we had a budget plan that showed that we are ready to keep that promise.

Do tuition tax credits really give an overall boost to the quality of education, or do they just boost the deficit without really promoting general education?

Do cuts in job training funds help us with the overall educational needs of America, or is it is just a way of saying that this administration thinks education is possible only in the classroom? If we are serious about competing economically with the rest of the world, we need all of our workers to be ready and trained to help.

If excellence is to be a goal of our educational system, it must be a national goal. It can't be a matter of just telling the States to do better. The National Government must be willing to help.

Many in Congress are worried about the Federal deficit and say that we have to get busy now or the problems will only get worse. I happen to be one of those. But there is certainly a parallel there to education. If we don't plan now to train people we need, we will have nothing but problems ahead.

We certainly look forward to your testimony and the testimony of the panel that will be before us today.

Chairman DOMENICI. Senator Chiles, we are going to proceed now with the witnesses.

I have an urgent call, and will go make it if you would not mind taking the testimony.

Mr. Secretary, it will just be a brief 3 or 4 minutes.

You may proceed, please.

STATEMENT OF HON. TERREL H. BELL, SECRETARY OF EDUCATION, ACCOMPANIED BY GARY L. BAUER, DEPUTY UNDER SECRETARY FOR PLANNING, BUDGET AND EVALUATION; SALLY H. CHRISTENSEN, DIRECTOR, BUDGET SERVICE; AND WILLIAM DINGELDEIN, DEPUTY DIRECTOR, BUDGET SERVICE

Secretary **Bell**. I would like to introduce Gary Bauer, Deputy Under Secretary for Planning, Budget and Evaluation; our Budget Director, Mr. Chairman, is Sally Christensen, who we think is the best Budget Director in the Government. We would not trade her for anybody at OMB.

Senator **Chiles** [presiding]. Certainly the prettiest.

Secretary **Bell**. Yes; we believe so, too.

And then, Bill Dingeldein, who is Deputy Budget Director.

We are pleased to be before you.

In the interest of time, I would like to just summarize my statement with a few comments and then be ready for questions.

Senator **Chiles**. That would be fine, Mr. Secretary.

We will put your statement in full in the record.[1]

FISCAL YEAR 1985 BUDGET REQUEST

Secretary **Bell**. Thank you.

Our 1985 budget request totals $15.5 billion; that is $100 million above the amount that Chairman Domenici just mentioned, of the 1984 appropriation of $15.4 billion.

We recognize that that budgeted amount comes at a time when we have enormous deficits and the administration is working hard along with the Congress to find ways that we can reduce the deficit.

I think as we look at our budget we need to recognize that inflation was eating away at the purchasing power of all education dollars as well as all others that were trying to get by in this difficult economy. We will spend this year $230 billion on education, that is kindergarten through graduate school, public and private. So our $15 billion budget is a small part of that, but we think, Mr. Chairman, that the reduction in the rate of inflation that has taken place has also had a very significant impact upon education and additionally, we would emphasize that the reduction in taxes, the very significant reduction in Federal taxes, has made it possible for the States to, if they care to, provide additional revenue.

The State legislatures are now in session; many of them are appropriating funds and reviewing and taking initiatives in education.

PROGRAM CUTS REQUIRE STATES TO RAISE ADDITIONAL REVENUE

Senator **Chiles**. Mr. Secretary, I do not want to interrupt you, but I think your comment is interesting that the reduction in taxes makes it possible for the States to raise additional revenue.

You might also note that the cuts we made in programs in the last 3 years have not only made it possible for the States, but also have required almost every State to raise additional revenue to make up for differences of funds that we are not sending them.

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[1] See p. 403.

We have already given them some other opportunities.

BETTER TO RAISE MONEY ON STATE LEVEL

Secretary **Bell**. I would counter that and I do not want to get into a debate here, obviously, but I would say that the education budget has not been reduced. I would say to you, sir, that we have proposed reductions in the past, but this budget is up $100 million. That was done at a time when it was very painful to do it and it was difficult for us to come up with those funds, but if we are to raise more money for education, it has to come through increased taxes, unless we want to make the deficit even more horrendous than it is. I would say, sir, if we are going to increases taxes, then we ought to say, would it be better to levy it here, or levy it in the State Houses?

And I argue, having worked on the State and local level, that we are a lot better off to have the State legislatures raise the money and not have the dollar make a round trip to Washington and back.

So, if we are talking about spending more money on education, than we are currently spending, then the question is, where do we raise the money?

Should we turn around after the big tax reductions and increase taxes to raise more money for education or should we follow our traditional posture of funding education on the State and local level?

And I argue that most of the States levy about the same taxes that we do here, and so if we are going to provide more funds, and if we are not going to make the deficit even more horrendous than it is, then my argument is that we ought to try to establish an economic climate so that the States can do it.

As I have talked to many Governors and State legislators, and with a big nationwide interest in education, there is considerable discussion going on about that, the complaint has been to me over the years, "The reason we cannot provide these resources is the Federal Government has usurped all the revenues."

Well, I argue that our tax reductions, helped with bipartisan support, I would emphasize, have made it possible now for us to back off from some revenue sources if the people and the State legislatures representing the people want to provide more money.

Just a few more points in my comment and then I will be summarizing my remarks.

BLOCK GRANT INCREASED

We did provide in our budget a large increase in the block grant and those funds, I should emphasize, amount to a 52-percent raise. That is a $250 million increase, and 80 percent of those funds go to the local school board which has broad discretion over how to utilize the moneys.

I talked to a large number of school people and asked them where it would be most advantageous for them to receive additional moneys if we were able to come up with them in our extremely tight budget.

Most of them I have talked to prefer the block grant because they can use the money at their own discretion. With the report of the National Commission on Excellence recommending increasing high school graduation requirements, beginning to pay teachers on a master teacher merit pay basis, and drastically revising and upgrading the curriculum, the local school districts need money for in-service training and for development of new curriculum, and for many of the initiatives emphasized by the National Commission.

So I have no doubt that the best thing that we could do would be to seek a significant increase in the chapter 2 block grant, and so my discussions and even debates with Budget Director Stockman have been to get an increase in that area, and I am proud of the fact that we do have a 52-percent increase there.

LEVEL FUNDING BUDGETS

At the same time, we are largely level funding our budgets for education for the handicapped and the disadvantaged.

There may be some categorical areas where on our priorities we have selected one area over another, but the overall funding is by and large level funding. We did provide a $6 million increase for the National Institute of Education to do some needed research, especially in the area of the use of computers in education. We are also providing $3.5 billion for chapter 1 compensatory education programs, $1.1 billion for aid for the handicapped and $1 billion in the Rehabilitation Act.

We are providing $100 million in our budget for adult education which is largely level funded compared to past years when I would concede that we were seeking reductions under the stress of budget constraints. Our bilingual education budget and our Indian education budget are approximately level funded.

STUDENT AID

In the area of student aid, we are providing—if we include the loan capital available—almost $12 billion in Department of Education supported financial assistance for college students to have access to higher education. We are shifting our priorities there to put more emphasis on the very needy student in the Pell grant, and we are emphasizing a self-help feature that we hope that the Congress will provide this year.

COLLEGE WORK STUDY PROGRAM

In addition to that, we are providing a 50-percent increase in the college work-study program. We are proposing that go up to $850 million and as a trade-off for that, we are proposing that some of the other campus-based programs be phased out, but the aggregate increase in Federal aid is a small hike over the previous year's budget, including about $300 million extra in available loan capital, for example.

BUDGET REFLECTS STRONG PRIORITY FOR EDUCATION

We think that this budget, given all of the difficulties that we are having and the stress that is on us as we deliberate over budgets, is a good budget. We think it reflects a strong priority for education. I am very pleased to defend it and to present it to you and appreciate very much the support that we have had over the past years—the 3 years that I have been Secretary—of the Congress, and of this committee, Mr. Chairman, for our budget items.

With those opening comments, I would be happy to respond to any questions.

Chairman DOMENICI. Thank you very much, Mr. Secretary.

[The prepared statement of Secretary Bell follows:]

Statement of

T. H. Bell, Secretary of Education

Before the

Budget Committee

United States Senate

Dirksen Senate Office Building

Room SD-608

March 1, 1984

9:30 A.M.

The Secretary is accompanied by:

Gary L. Bauer, Deputy Under Secretary for Planning, Budget and Evaluation
Sally H. Christensen, Director, Budget Service
William Dingeldein, Deputy Director, Budget Service

Statement by the Secretary of Education

Department of Education
Fiscal Year 1985 Budget

Mr. Chairman and Members of the Committee:

I am especially pleased to have the opportunity to present to you the President's 1985 budget proposals for the Department of Education. The 1985 budget request totals $15.5 billion which, if enacted, would be the largest Federal education appropriation in history. I am very pleased with this proposal for several reasons.

This budget results from a year of national focus on the issue of educational excellence. It concentrates on programs that respond directly to findings and recommendations of our National Commission on Excellence in Education and the subsequent regional and national forums. The forums enabled us to solicit the ideas and examine the experiences of parents and students, teachers, administrators, officials from all levels of government, business leaders, and other private citizens. What we learned from the forums about the national commitment to education reform and excellence has helped us to develop a budget that reflects what we can appropriately do at the Federal level to assist State and local governments to improve education services.

I am also especially pleased with the success of the President's efforts to help control inflation. This has paid a large dividend for education. The benefits of a nine percentage point decline in the rate of inflation are clear when we look at total education expenditures, which now amount to almost $230 billion a year. If inflation had continued at its 1981 rate, that $230 billion, which comes from all sources -- Federal, State, local, and private -- would now be worth $20 billion less in its purchasing power. This inflation reduction dividend means that State and local governments will have more purchasing power to finance education reforms, and that the dollars they do commit to the effort will go much farther than they would have under other economic circumstances.

Budget Summary

I would now like to present to you some of the highlights of our budget. To summarize, our total request of $15.5 billion, a slight increase over our 1984 appropriation of $15.4 billion, includes:

- $7.4 billion, or 48 percent of our total budget, for priorities and problems addressed in the National Commission's Report. Of this amount, $854 million will be used for programs designed to help States and localities meet the Commission's recommendations for reform and to provide Federal leadership. The remaining $6.6 billion will be targeted on our disadvantaged and handicapped populations, whom the Report describes as "most at risk."

- $6.5 billion, or 42 percent of our total, for our student aid programs so that we can help our neediest young persons to attend college.
- $1.6 billion, or 10 percent, for other Federal priorities such as Vocational Education and Impact Aid.

Response to the National Commission Report

The National Commission on Excellence in Education cited many factors that would support the conclusion that we are indeed "A Nation at Risk," as the title of their report points out. For example:

- There are 23 million American adults who are functionally illiterate.
- Measures of achievement among high school students show significant declines over the past two and a half decades.
- A disturbing number of high school students lack the "higher order" intellectual skills required for analysis, effective writing, and solving complex mathematics problems.

The indicator that has received the most attention recently is the broad decline in college entrance examination scores measuring verbal and mathematics aptitude. On one of the nationally administered tests, the SAT, scores declined from a total average of 937 in 1972 to 893 in 1982. Our 1985 budget responds to the Commission's recommendations in ways we believe the Federal Government can be most helpful.

The highlight of our response to the recommendations of the Commission on Excellence is our request of $729 million for the Chapter 2 Block Grant Program. This is a $250 million increase over 1984 to help States and local school districts develop and implement programs that meet their own needs and priorities for educational reform.

Chapter 2 block grants allow very broad discretion over the expenditures of funds and there are many ways they can be used to support the Commission's recommendations. For example, to address diluted and diffused curricula, the Commission recommended a strengthening of core educational content through a focus on "five new basics": English, mathematics, science, social studies, and computer science. The block grant funds could be used to assist in developing new demanding mathematics curricula, updating science courses, and exposing students to the use of computers for educational and work purposes.

In findings and recommendations concerning expectations for students, the Commission cited a need for tighter graduation requirements, rigorous testing, and improved textbooks. While expectations for student performance can be raised without large sums of money, the increased block grant funds could encourage States and localities to require more basic courses for graduation, to devise diagnostic tests to measure achievement and improvement, and to upgrade textbooks and teaching tools.

Expansion of time available for education in the basics either during the school day or the school year, as recommended by the Commission, could require additional funds. Other "time" improvements will not necessarily require more money. More homework, fewer administrative burdens for teachers, and stricter discipline can increase time for learning without additional money. However, school districts may want to use Chapter 2 funds for experiments in teaching students to study more effectively or improving classroom management.

The fourth finding of the Commission concerned teaching itself. The Commission reported that teaching tends to attract the least academically able students, that teacher salaries are low and related more to longevity than performance, and that some fields -- such as mathematics and science -- have shortages of teachers while others have too many. The 1985 budget has at least three ways of addressing these findings on teaching. First, the States and localities can use their Chapter 2 funds to devise methods to attract and retain better students into teaching. Second, I will use the discretionary authority under Chapter 2 to fund some small projects that demonstrate the value of teacher incentives or pay structures that lead to master teacher or other elevated career rankings such as those found in higher education. Third, the President's proposal for Science and Mathematics Education provides $50 million to increase the number of qualified teachers in these subjects by retraining teachers from other fields.

Additionally, the National Institute of Education, with a $6 million increase, together with the National Center for Education Statistics, will sponsor research, dissemination, and statistical studies on using educational technology more effectively in the classroom, upgrading the current teaching force, improving high school and college level curricula, and attracting highly qualified students and others to the teaching profession. Finally, the Fund for the Improvement of Postsecondary Education will contribute to the national effort toward excellence by supporting new projects to improve teacher education programs.

The fifth recommendation of the Commission concerned leadership and fiscal support. It underscored the primary responsibility of States and localities for financing and governing schools but recognized a role for the Federal Government. This included support for those populations identified as "most at risk" in the Commission's report -- the disadvantaged and handicapped.

For these populations, our budget includes nearly $3.5 billion for Chapter 1 compensatory educational services for about 5 million disadvantaged elementary and secondary students, $1.1 billion under P.L. 94-142 for grants to help States and localities meet the additional costs of providing special education for over 4 million handicapped children, and over $1 billion for rehabilitation services programs to help some 1 million handicapped adults attain useful and meaningful lives. We will also continue to support legislation for an optional voucher program under Chapter 1 to expand opportunities for parents of educationally deprived children to choose the schools that best meet their needs.

We are also proposing to support the same level as 1984 for several other programs in this category. As part of an Adult Literacy Initiative, we are submitting legislation for the Adult Education Act separate from Vocational Education, and will continue this program at $100 million. We will also continue aid for Bilingual and Indian Education; and we will maintain support for Black and other minority institutions through the Title III Institutional Aid program and the Minority Institutions Science Improvement program.

Restructuring Student Aid

For student aid, the budget includes $6.5 billion, an increase of $251 million over FY 1984. The Administration is again proposing a major philosophical shift in this area: To restore the traditional responsibility of the parent and student for helping to finance the cost of a college education.

In total, about 4.5 million students, or 52 percent of the full-time equivalent postsecondary education enrollment, will continue to have available to them almost $12 billion in Department of Education-supported financial assistance. This amount includes Federal grant and Work-Study assistance, Guaranteed Student Loan capital, new loans under the Direct Loan program revolving funds, and institutional matching funds.

Student self-help will again be emphasized by conditioning the receipt of Federal grants upon a self-help expectation which is the greater of $500 or 40 percent of the cost of education. This requirement for self-help may be met from any source other than Federal grants -- including Federal Work-Study funds and Federal loans.

To help students meet the self-help expectation, our 1985 budget includes $850 million for the Work-Study program -- an increase of over 50 percent -- and projects the availability of over $7.5 billion in new GSL loan capital -- an increase of over $300 million. In addition, almost $600 million will be available for new Direct Loans from existing revolving funds.

Families will also be expected to contribute more of their discretionary income toward educational costs. Reduced taxes help in this respect, of course, and we will continue our support of legislation for Education Savings Accounts, which will encourage families to save for college costs.

Under the self-help approach to student aid, it is still our overriding concern to target funds on the neediest students. To ensure that such students continue to have access to a college education, our proposal will increase the Pell Grant maximum award from $1,900 to $3,000, make awards more sensitive to education costs, and eliminate some current inequities. Approximately 80 percent of Pell Grant funds will go to students from families with adjusted incomes below $12,000, compared with 74 percent under current law.

In order to provide more flexibility to institutions to meet the needs of their individual students, other changes would allow an institution (1) to transfer up to 50 percent of its Work-Study funds to Supplemental Grants, compared with 10 percent under current law, and (2) to allow a school to use up to $100,000 of its Work-Study allocation for the administrative costs of establishing or operating Cooperative Education, Job Location and Development Centers, and/or adult literacy programs. Currently, institutions are limited to $25,000 which can be used only for Job Location and Development Centers.

We propose to continue to control the costs of the Guaranteed Student Loan program, which remains the single largest source of Federal student aid. Our budget includes five legislative changes which would save $221.5 million in 1985, and another $350 million over fiscal years 1986 and 1987, from the costs of current law. The greatest portion of projected savings would accrue from the return of loan advances to the now well-established guarantee agencies and from eliminating some of the cost allowances paid to these agencies in support of their administrative activities.

We are also proposing to extend the current requirement for need analysis to students from families with incomes below $30,000. These and the other savings measures will help to offset otherwise increasing costs in 1984 and 1985 and will assist in controlling costs in the outyears. We expect loan volume, however, to continue to increase moderately, helping to ensure student access and choice in postsecondary education.

Other Federal Priorities

Other priority areas of our budget include vocational education, impact aid, and our efforts to improve the efficiency and effectiveness of the Department's operations.

In addition to emphasizing the "new basics," we are placing a renewed priority on vocational education and proposing to link it closer to economic development. We are, therefore, requesting $738.5 million for vocational education, the same as the 1984 appropriation, and proposing new legislation which will target at least 30 percent of Federal monies on economic development and skilled workforce training. We would also target at least 20 percent of vocational education funds on the disadvantaged and 10 percent on the handicapped, and would continue adult education as a separate program.

For Impact Aid, we would continue to emphasize assistance to those school districts that are the most heavily burdened by the presence of Federal activities. A total of $506.6 million is requested primarily to make payments to those districts which enroll students whose parents both live and work on Federal property.

In conclusion, I want to emphasize that our budget for 1985 is a responsible budget. Moreover, it reflects the President's strong commitment to excellence in our schools, and it provides an appropriate Federal response to the recommendations of the National Commission on Excellence in Education.

I would be happy to respond to any questions you may now have.

STUDENT LOAN PROGRAM TARGETED TO NEEDY

Chairman **Domenici**. Mr. Secretary, I would like to ask several questions about post-secondary education programs, if I might.

In my opening remarks, I alluded to what I thought was one of the significant changes that has occurred in the past few years—targeting the student loan program to the needy.

As a result of these changes, funding has increased for the Pell grant program and, recently, declined for student loans. Prior to these changes, student loan costs grew unchecked, and only what was left over was available for the grant programs.

Secretary **Bell**. Right.

Chairman **Domenici**. Consequently, the Pell grant program was getting smaller every year because more money was needed for student loans. With the needs test, reform for student loans, growth has been checked and more money is going into Pell grants. Last year alone Pell grant appropriations increased by $381 million.

SELF-HELP PROPOSAL

Frankly, in my State we think that is good. Pell grants are very helpful to many of our students who could not otherwise go to college. But I note that the proposal which you make called "self-help" grants to replace the Pell grant program, will help those students who go to very expensive institutions, but it may not help those who go to the lower cost public institutions, such as in my State.

Secretary **Bell**. Right.

Chairman **Domenici**. We do not have very many of the expensive schools.

We have mostly public ones that are reasonably priced. Have your people told you that it might be skewed in that direction?

Secretary **Bell**. We have discussed this at great length.

The self-help requirement, we think, is quite a modest one. We want to emphasize that you can use Federal assistance, both work-study and the loans, to count on your self-help need, and that this is to require that you make a minimum commitment on your own, the student and the parent, before you get a Pell grant. The Pell grant needs formula has been shifted so the dollars are going more and more to the lower income rather than the middle income student. And then we have the guaranteed student loan program available, including the auxilliary loan program, which has been called the parent loan program or the PLUS program before that, if they still need more capital.

I do believe, Mr. Chairman, that the formula that we have provides money on the basis of the cost of attendance at college.

Chairman **Domenici**. Yes.

CONCEPT IS TO PROVIDE ACCESS AND CHOICE

Secretary **Bell**. And so if you have a State institution with a low tuition, you are not qoing to qualify for as much student aid.

The concept is to provide access and choice. We have not wanted to see all of the low income students going to the public low tuition institutions and the private institutions, the Ivy League type schools available only to the wealthy, and so we have tried to strike a good balance there.

Mr. Dingeldein is an expert on those formulas.

Chairman DOMENICI. The purpose is admirable. I would just be concerned that if we do not do it exactly right, too much of the money that would go to the—lower cost public schools might get siphoned off. Its appropriate to talk about some reasonable balance between the two types of schools, but this is a concern of mine.

Secretary BELL. Yes.

We believe, Mr. Chairman, that we have a good balance. We have to defend that before both Appropriations Committees, after you are through with us. As that gets hammered out it gets to be well-debated. It is not a big change from what we proposed last year. There is some small change in it.

NEEDS ANALYSIS PROPOSED

I should emphasize that we are proposing that all students, before they get a loan, prove that they need it and so we are proposing needs analysis for students below the income level of $30,000.

At the present time you only have to go to need analysis if you make more than—if the family income is more than—$30,000. We have wanted to see need analysis on all levels. We do not think we ought to provide a loan to anyone who does not need it.

We think when they demonstrate need, it ought to be available to them.

WORK-STUDY PROGRAM INCREASED

Chairman DOMENICI. Just two more quick questions.

How much additional do you recommend for work-study?

Secretary BELL. It is about a 50-percent increase. What is the precise number?

Mr. DINGELDEIN. $295 million.

Secretary BELL. That has been around a $500 million program. We are running it up a little better than $500 million I think we are running it to, what, $850 million. $850 million, to be precise.

Now, Mr. Chairman, in connection with that, so we are not guilty of not telling you the whole story, we have some other campus-based programs that in our proposal would not be funded. Also in the work study program an institution would have authority to transfer money from the work study over into the supplemental grant program, if it has needy students who cannot work or should not work, and so the schools have a lot of flexibility in our proposal.

A lot of students want part-time work. We think the need and demand are there.

Chairman DOMENICI. That was supposed to be my question.

I told you in my opening remarks, while I do not remember much about being a teacher as that was a long time ago, but I know a great deal about being a parent of college students. I usually have five in college at a time. This year is a reprieve I only have four. My twins will be ready and I will have five again.

Work study seems to be, a very important program. Do you find that there is demand for that program and so you have requested an increase?

Secretary **Bell**. That is correct.

Since institution needs are different, we wanted to allow that transfer authority in our proposed bill. But many students and many parents are becoming concerned about the huge indebtedness that they are incurring. We would like to provide work-study opportunities for all those who want to work.

QUEST FOR EXCELLENCE REFORM

Chairman **Domenici**. Could you provide us with a few quick examples of what you see happening in the States in response to the various commissions and the quest for excellence?

Secretary **Bell**. Mr. Chairman, I would say without any equivocation, and I do not want this to sound like boasting, because the whole education community and the Nation as a whole is responsible for it, and not us, but as a result of the report of the National Commission on Excellence in Education, and the other reports, almost every State now has a Commission that has been studying education. Most of them have reported to the Governors, the Governors have delivered messages to their legislatures, most of the legislatures are now in session, and we have the most far-reaching and extensive reform and renewal of American education that we have had in several decades.

We are raising high school graduation requirements dramatically. There are more mathematics, science, English and social studies requirements, and more emphasis on languages than we have had in the past.

In addition to that, many States are moving to a change in how we compensate our teachers, performance-based salaries, master teacher, career ladder programs. Senator Chiles' home State has been a leader in this. They have passed a new education reform program, the legislation was enacted last summer, and a new session is adding money to that. We have very extensive and far-reaching actions taking place all over the Nation at the present time.

There are increased hiqh school graduation requirements, passing of competency examinations to move from one grade level to another one, toughening up of the curriculum, more stringent evaluation of teachers and salary increases based upon performance as well as across the board salary increases for teachers.

So we have a great renaissance in American education going on at the present time. It is all over the country. Debates are taking place in all of the State Houses at the present time. I have been around the country; we held 12 regional forums on the results of our report.

I have talked to almost every Governor and to many State legislative leaders. There is an enormous amount of activity right now, Mr. Chairman, to change and upgrade American education.

I think we are going to see an enormous change for the better in the strengthening of our education system.

Chairman **Domenici**. Senator Chiles.

Senator CHILES. Mr. Secretary, I note in your biography that you were a first sergeant in the Marine Corps, and I can understand how you got to be a fighter.

Secretary BELL. They needed them during World War II, so even little short guys could make it.

Senator CHILES. Well, I think that says something for your tenacity, and I think we are fortunate to have you as Education Secretary at this time.

I hesitate to interrupt your comments again, but you did note that moneys had not been cut for education. Does not Congress deserve a little credit for that?

Secretary BELL. Yes, sir.

BULK OF CHAPTER 2 FUNDING SPENT ON COMPUTERS

Senator CHILES. And some of those 1981 proposals contain that. It is good to see a sizeable increase in some of the proposals this year for chapter 2. I hope that is not just because this happens to be a year that is divisible by four, an election year, but I welcome the Department's concern for providing States and localities additional resources to plan and implement strategies to improve the quality of education.

I am concerned about whether the States and localities are going to use these funds in this manner. A survey by the American Association of School Administrators shows that the school districts have spent the bulk of their chapter 2 funds on textbooks and computer hardware and other materials, rather than on innovative programs. And the Rand Corp. says that they know the reason why, suggesting that school officials have felt uncertain about whether this fund is going to continue. They seem to feel it is better to buy something that they will have, rather than get into some program that leaves a further burden on the States if we cut the funding off.

I think that is disappointing, because that is not what we were trying to do. But I guess in some ways, given the fact that this administration did start off to dismantle the Department of Education, you cannot blame them for being a little uneasy.

How can we persuade these school districts that this is not just an election year reversal, a one-shot thing. Would guidelines help?

One of the things that the Rand study showed was that there were no Federal guidelines. School districts see that, so they say, "if we get into some program and it is not approved by the Department we are up the creek." Why does not the Department give some guidelines or some kind of encouragement that this is something more lasting and permanent, and will not just disappear?

Secretary BELL. I know from my own experience on the State and local level that they use the terms "soft" and "hard" money, and Federal money is usually referred to as "soft" money because you do not know how long you are going to have it. But I also know from my experience, that money appropriated by the State legislature can get quite "soft" in a hurry, just like it does on the Federal level.

But I would emphasize that in chapter 2 there have been many activities other than computer acquisition. I would emphasize that we should not consider that as bad news, because the computer is here to stay, and it is going to have a dramatic impact on all of our lives. Surely artificial intelligence is going to be a powerful tool in American education. What we are going to need is better software. We hope to use the added budget that we are asking for with NIE——

Senator **Chiles**. But in chapter 2 we were trying to put in trigger money. We are trying to provide some motivation.

OTHER CHAPTER 2 FUNDING NOT GETTING ATTENTION

Secretary **Bell**. Yes.

But the point I am making is that I believe that other uses of funding for chapter 2 are not getting the attention that they ought to get. There has been money used for curriculum revision, revisions that are badly needed in the upgrading that we need. There has been money used for in-service training of teachers, large sums of money, and there have been funds used to develop various other types of activities that are useful and needed in education.

So I think the statement needs to be modified, that all the school districts are doing is spending this chapter 2 money on computers, because it is really not so. The facts do not bear that out.

With respect, Senator Chiles, to guidelines, the purpose of the block grant is to give the local school board broad discretion as to how to use the money. They can use that money for any one of 42 different statutory purposes that were folded into the block grant. It is hard for me to identify some purpose for which you cannot use the block grant money.

FEAR OF AUDIT EXCEPTIONS

Their fear of audit exceptions is related to the fact that their experience is in administering narrow categorical aid programs. It is going to take some time for them to get used to the fact that the Feds are not going to be telling them what to do with that money.

The audit provisions require the State level audit and the CPA's on that level to carry out most of the auditing function, and so I am trying to do all I can to allay the fears. I do not think they ought to be asking us to tell them how to use that money. If we believe in local control of education, and I am a strong believer in it, then we ought to leave that discretion to them within the confines of the statute.

And it is very, very broad. Because of that broadness, they keep asking us for guidelines. Frankly, other than to respond to questions and to help them and to reiterate how broad the authority is, I have been reluctant to try to tell the school board in Albuquerque, for example——

Senator **Chiles**. Well, maybe a guideline would be just some of what you are saying right now, that we mean it and that we are not going to pull the rug out from under you, this is a broad program, but we expect you to kind of seek some innovative ways in going about it, and you will not get slapped down in our audits if you do that.

Secretary **Bell**. Well, you see, Senator, the problem is a little bit like the story of Mark Twain and the stove when he told about his cat that jumped on a hot stove and jumped right off and then observed that the cat is not going to jump up on a hot stove again, or a cold one for that matter.

Some of them have been on that hot stove. They have had audit exceptions over a narrow categorical aid program. So have I as a local school superintendent. It is going to take quite awhile to get over that.

Now, maybe, Senator, we are not doing as good a job as we can to communicate that, I accept that as some suggestion that we ought to redouble our efforts. But they are not accustomed to a block grant. This is the first one we have ever had. They keep asking us to tell them how to use that money. I have been trying to refrain from doing that.

FLEXIBILITY IN DEVELOPMENT OF VOCATIONAL EDUCATION PROGRAMS

Senator **Chiles**. The Federal Government has had a long-standing interest in spuring vocational education to keep up with the rapid technological changes in our economy. At no other time in history has the interest been more merited than the present. Yet, the administration's proposal to block-grant vocational education seems to sidestep this urgent responsibility.

The chairman and I have introduced the legislation this week which would give States more flexibility in the development of the vocational education programs. Yet, at the same time, our bill seeks to set national priorities for the improvement of the quality of vocation programs to meet the needs of the changing economy, and for the provision of access to such programs for the disadvantaged.

The States and localities are given wide discretion in developing these programs but in both the planning and evaluation stages they have to demonstrate how they sought to meet the goals.

I would like to have your opinion as to whether you think this bill addresses the needs of the economy more appropriately than a block grant would at this time?

Secretary **Bell**. As we think about the vocational education program we need to keep in mind that for every dollar in Federal money there are $10 in State and local so we provide about one-tenth. They have overmatched that much. The problem is the great number of categorical setasides in the vocational education program. I have been discussing that with Senator Stafford and Senator Hatch. I believe that in the bill they now have there are 19 different pots that that money goes into. I think that is an extreme position that is going to make it difficult for States and localities to use the vocational education money.

We need to keep in mind when we provide the Federal aid program that we are dealing with 50 different sovereign States out there. One State legislature emphasizes one thing and another State emphasizes another one. If we start setting all the priorities for our 10 percent of the money, we just cause a lot of administrative difficulty for them.

A year ago we proposed a consolidation of both the adult education and the vocational education program in one huge block grant.

We have moved back from that this year. The adult education program will remain separate. The vocational program will have money for some research and development experimentation type activity, a very small setaside. The rest of it would be largely available for each local vocational education board to harmonize the money with State and local funds. If your proposal does that, I will be embracing it with more enthusiasm than most of them I have been able to look at thus far.

Senator CHILES. I hope you have a chance to look at it or have your staff look at it, and then let us have your views.

We are certainly not going in the direction of the 19 programs that we have setaside. We really feel each State knows something about what their needs are. We want to see them give us a plan and let us say that looks like good and then we would determine whether they are meeting their goals. But we are not going to tell them categorically what that plan should be.

Again, you mentioned the $1 for $10. That is certainly true, but that $1 can be very important.

Secretary BELL. I agree.

BLOCK GRANT CONCEPT

Senator CHILES. And at one time, of course, the administration took the view that because this is 1 to 10, just let the States do it, they will do it anyway, and the Congress said, no. We felt that we had.

Now, the concept of the block grant implies the Federal Government is going to pay a certain percentage of education. Now, some of us think that is the wrong way to go. The Federal Government should not be responsible for paying one-third or one-fourth or one-fifth or half of education. We ought to be putting in money to just induce these States and local governments to move in directions of access, to open up to the disadvantaged, to take care of special problems, to make sure that we are developing a job training base. That is why we think if you just go in the block grants, you are going away from that.

GIVE MORE FLEXIBILITY TO VOCATIONAL EDUCATION

Secretary BELL. Well, I would agree that we ought to require that the money be spent on vocational education and therefore, it should not be authorized with the same broadness as the chapter 2 block grant. I think it ought to be categorical in that it be spent on vocational education and that those funds ought to be targeted to help each State meet their unemploymet problems.

To that extent, it would not be as broad a program as the chapter 2 block grant. But I would also emphasize that we can move too far in the other direction when we have so many setasides that we are obstructing rather than helping. That sounds to me like philosophically we are not very far away in what we ought to do I hope we can persuade the committee that is writing that vocational education bill that they can give more flexibility to the school districts than I see in the legislation now being marked up in both the House and the Senate committees.

I think it goes too much in the other direction.

Chairman **Domenici**. Let me say, Mr. Secretary, if the Senator will yield.

Senator **Chiles**. Yes.

Chairman **Domenici**. I think you ought to look at the Chiles-Domenici bill because, frankly, Congress is presently unwilling to create a new vocational education.

I would like to urge you to increase the States' flexibility with some minimum categories if possible.

Secretary **Bell**. Yes.

Chairman **Domenici**. I agree with you. If any area of education cries out for local flexibility and local direction that area is vocational education. Clearly you are not training young people in Connecticut for the same type of work you are training them for in Florida or New Mexico. There is a national commitment to vocational education but there must be an incentive for local schools to get involved.

The Chiles-Domenici bill does this, and we would appreciate your taking a close look at it.

Secretary **Bell**. I would be pleased to do that.

Vocational education is the oldest Federal aid program we have. The Smith-Hughes Act was passed in 1917. We have had the Future Farmers of America and the other Smith-Hughes programs ever since then.

It has had a great impact through the years on American education.

Chairman **Domenici**. Senator, are you ready?

You have been waiting a long time.

I am sorry.

LEVEL FUNDING PROGRAMS FOR DISADVANTAGED

Senator **Andrews**. Thank you, Mr. Chairman.

Back in North Dakota, we call it the Andrews-Domenici-Chiles bill.

But I just want to emphasize what the chairman and my colleague, my good friend from Florida, said. It is extremely important.

Mr. Secretary, by level funding programs for the disadvantaged, is not the education budget in effect cutting these programs?

Secretary **Bell**. Well, I think it depends upon how you use your numbers. You can start back at any base.

ADJUSTMENT FOR INFLATION

Senator **Andrews**. No; but your definition of level funding is the same level as last year. You are not adjusting for inflation.

Secretary **Bell**. That is correct.

But I would emphasize that the adjustment for inflation comes about by the fact that by restraining our spending and reducing taxes, we have the rate of inflation down considerably. When you calculate what that does to education budgets on the State and local level, you can see the reason for the economic recovery we have underway.

But no one can deny that when costs go up, your dollars obviously are not going to buy as much.

Senator **Andrews**. That is right.

Secretary **Bell**. But we do have a small increase in our budget this year $100 million. That plus the additional revenue that is being generated on the State and local level by the economic recovery, by people going back to work and by the gross national product increasing, is generating additional money in the State coffers, and most of that, in almost every State, over half of it goes into States, because most of the State legislatures allocate that proportion of their appropriations for education.

BETTER TO LOCALLY FUND EDUCATION

Senator **Andrews**. That is true, Mr. Secretary, and you argue that it is better to locally fund education rather than have tax dollars make a round trip to Washington. I share that concept partially. My share of the concept is that control ought to be with the local school board.

There ought to be some type of national equalization fund for education because if you say that they should be totally locally funded, how do you account for the resulting inequalities in education that will be based on vastly varying local tax bases?

Every time a farmer in North Dakota buys a tractor, that farmer contributes to the education of children in Iowa. Everytime we buy an automobile we contribute in a sense to the education of children in Michigan. We do not have any of these industries in our State. We are spending twice as much as a proportion of our resources for education as many other States per student, and how do we ever get even?

Secretary **Bell**. Well, you see, Senator, right now most of the funds we have relate to income level and the amount or number of students living in poverty under the latest census. Because of that the lower income per capita States get the most Federal money.

Senator **Andrews**. That is true, but you fail to take into account the tax base that comes on from industry, industrial plants, and all of the rest.

Secretary **Bell**. We think that the tax base is reflected in the per capita income. We think it largely influences the funds.

The lowest income State in education is the State of Mississippi. They receive more Federal aid per capita than any other State. Incidentally, they have just made the largest increase they have ever made in their history in their State legislative commitment to education.

Senator **Andrews**. But education——

Secretary **Bell**. A very significant move there.

Senator **Andrews**. But education, Mr. Secretary, is traditionally funded on the local level and not by income taxes, but by property taxes.

FUNDING COMING OUT OF STATE APPROPRIATED MONEY

Secretary **Bell**. That was so just a few years ago, but in most of the States now the funding is coming out of State appropriated money. Most of the States are now appropriating more money out of the State appropriation procedure, than they are relying on local property taxes. I would hasten to say there are exceptions to that in New Hampshire, which does not have any State aid yet.

But most of the States are appropriating funds in that area.

In my home State, 100 percent of the income tax is earmarked for the uniform school fund, so the movement is away from reliance on local property tax, at least as heavily as it has been.

APPLY TITLE IX TO SMALL RURAL SCHOOL DISTRICTS

Senator **Andrews**. Mr. Secretary, a moment ago, in response, I think, to a question to the Senator from Florida, you talked about the 50 sovereign States out there. Certainly I would agree that there are 50 unique States.

Do you believe that rural school districts with small enrollments and limited financial resources should have title IX applied in the same manner as large urban school districts?

Let me tell you where I am coming from.

I am a cosponsor of Senate Resolution 149 so I totally agree with the broad application of this concept. But there is a difference. There is a unique characteristic in these small rural schools and do you think they should be applied in the same way as you do to the larger ones?

Secretary **Bell**. Well, all title IX says, Senator, is that you should not discriminate in your education programs on the basis of sex.

Senator **Andrews**. That is right.

Secretary **Bell**. If you say to a woman that you cannot have a sports program in *x* high school, because you are a woman, it is only a step from there to say you cannot have it because you are black.

Senator **Andrews**. That is right.

Secretary **Bell**. I still think it is discrimination. I think we ought to be evenhanded in that regard.

MISAPPLICATION OF TITLE IX

Senator **Andrews**. Mr. Secretary, as I say, I totally agree with you. I am a cosponsor of Senate Resolution 149.

The trouble is, up at the secretarial level sometimes you lose sight of what is happening out in the field.

Now, let me tell you about a little school district out in North Dakota. It is a school district of Wahalla. It is found to be in noncompliance with title IX, frankly, because they do not have enough students or enough money or enough community interest to offer as broad a range of sports as large well-funded more urban school districts.

They have a situation up there where they offer for boys, three sports, football in the fall and basketball and wrestling in the winter. They offer for girls basketball or cheerleading in the fall, the girls want to do cheerleading which is really athletics, actually tumbling and a whole host of other things, they questioned that, so the school offered to have volleyball in the winter for the girls but no, their office of education said that they had to offer to the girls track in the spring. They do have any sports for boys in the spring.

Secretary **Bell**. If anyone is specifying specific sports like track, I will certainly very vigorously and aggressively correct that.

Senator **Andrews**. Well, the point is, Mr. Secretary, in Wahalla, they do not have sports in the spring because this is a rural small town and almost all of those students are out helping after school getting the crops seeded and, you know, Mr. Lavic, who is the superintendent up there, got a letter from your office in Denver saying on February 24, that they had 15 days to come up with a program.

They tried to offer track at one time. Eight boys turned out and four girls. They did not have enough to justify it, because the kids were all out doing spring work in the spring. Yet, the dead hand of our Federal bureaucracy, our administration, came out and told this school that no matter what you experienced in the past, because of title IX, you have got to go out and offer a track program for the girls in Wahalla, N. Dak., in the spring.

Now, you know, I am all for title IX but I think this is an idiotic misapplication of it.

Secretary **Bell**. This specific instance I will need to learn more about. But I would emphasize that it is not the policy of the Department of Education to specify what sports schools offer.

Senator **Andrews**. Or what season you offer them in?

Secretary **Bell**. That is correct.

But it is our policy to plead that women have equal opportunity with men. That is all we are saying.

Senator **Andrews**. And this little school up there has three sports for boys and three sports for girls, and I would suggest, Mr. Secretary, if they had the resource for four sports for boys there would probably be four sports for girls.

But you have got to go along with the uniqueness of the area, and they have—we called your Denver office and got another 2 week's extension but they're sitting out there wondering what to do because they are being told by the office of education that irrespective of the needs of the children in that community, and the families in that community, somehow or another the Department of Education says you better start up a track program in the spring.

I am glad to see that is not your policy.

EVERY CIVIL RIGHTS VIOLATION MUST BE INVESTIGATED

Secretary **Bell**. I shall jump on whoever ordered track.

I suspect that they have not specified track, Senator. I think maybe the communication from them to you may be a bit off there. But if they are, I will take action on that.

On the timeframes, let me emphasize to you that for about 14 years the Department of Education and its predecessor HEW, has been under the Adams court order. We must respond to and we must investiqate every civil rights violation complaint that we receive. We have to do it under a timeframe that is laid upon us. I know that initially there are 15 days for us to respond after we receive a complaint.

That comes out of the judicial branch. If there is any way that the legislative branch could help us in that regard, I would welcome it.

But we labor under that court order. I have struggled with complaints. I have struggled with threats of noncompliance and even contempt in trying to keep up in that regard.

But I will promise you, Senator, that we are going to check out this school district.

Senator ANDREWS. I appreciate that, and what I have been told, Mr. Secretary, is that they offer volleyball in the winter, which is feasible, and they were told by the Denver office, nope, you have to have a girls' track program in the spring.

That is nice of those folks, telling us how to run our operation.

Secretary BELL. Yes.

The director out in Denver is Dale Ramon. He is an able man. I would be surprised if he is that dogmatic in specifying the program, but if he is, he will receive some instructions, I will guarantee you that.

Senator ANDREWS. Mr. Secretary, you cannot do any better because of your reputation in the past, and from the business we have done together in the past, this has typified your actions all the time, which is the reason that I brought it up.

Secretary BELL. Let me emphasize, Senator, and I apologize for interrupting, but I have been on that side of it. I started out as a superintendent of a tiny rural school district in Idaho. I served in three Western States. I know what it is to incur the wrath of the Federal Government. I would not want to come across that way, because I am sympathetic in that regard. I have had that myself.

Senator ANDREWS [presiding]. You are doing such a whale of a good job, that is why a number of us on this Republican side have been insisting that we not abolish the Department of Education and, let me assure you, this school in Wahalla needs an extension of their time because they are right up against the blade, but I am sure that with your interest in it, that would be taken care of.

Thank you very much, Mr. Secretary.

We next have a panel made up of Dr. Jo Ann Krueger, the principal of Manzano High School, Albuquerque, N. Mex.; Dr. Allan Odden, of the education commission of the States; and Dr. Patricia Graham, dean of the Graduate School of Education, Harvard University.

We are very pleased to have you here today.

I understand that Dr. Krueger just won a very significant award and our congratulations to you, Doctor.

And, of course, Dr. Allan Odden, we know about because of his past interaction with the Congress and Dr. Graham, it is good to have you here.

One of my old classmates in high school is now a professor at Harvard, we had a woman on our staff for a temporary period of time who is—Welda Visabacher, whose husband is the head of Harvard Medical Schools.

As I understand, Dr. Krueger, are you going to go first?

Dr. KRUEGER. Whatever your pleasure is.

Senator ANDREWS. Go ahead.

STATEMENT OF DR. JO ANN KRUEGER, PRINCIPAL, MANZANO HIGH SCHOOL, ALBUQUERQUE PUBLIC SCHOOLS

Dr. **Krueger**. I want to thank you for your congratulations.

We are very proud of our school, and I am very happy to be here to talk about education from, I guess you would say, the grassroots or, as we like to say, out in the high school: in the trenches.

An effective school does not emerge by chance. We feel it is a dynamic and a directed process, not an event. We also feel it is rooted in and nurtured by an ecology of interrelated physical, financial, and human resources. To paraphrase John Donne of the 17th century, and with apologies to him, "No school is an island—very much a piece and part of the main."

What Secretary Bell was saying just a few minutes ago relates to us directly, intensely, and over time.

A school is a smaller version of the society that nurtures it. It is not an isolated, encapsulated entity, but rather, a school is a highly responsive and permeable extension of its community, reflecting for better or worse all of the elements present in that larger societal setting.

Many, in my view, would have the schools rise above what is typical for that community, much like parents who hope that their children will grow to mirror the best that is in themselves as parents, the community would like to see its schools mirror the best that is in the community.

In other words, a school is usually expected to embody the best that is in a community and to demonstrate this excellence through student achievements and behavior.

I suspect that the more effective school does a better job of fulfilling this expectation than does the less effective school. I suspect that the more effective school marshalls it resources: financial, physical, and human, to promote a systematic design for continuous improvement of education Secretary Bell has recognized this, and it has been mentioned I salute him for it, last year he set in motion a process for identifying unusually effective schools.

RECOGNITION FOR MANZANO HIGH SHCOOL

This process culminated in the selection of 152 secondary schools across the Nation. Eighty-eight of these were high school, and my own high school, Manzano High School in Albuquerque, N. Mex., now proudly displays one of the specially designed flags for recognition. It is a recognition, by the way, which has not promoted complacency. On the contrary, we have had an upward thrust and renewal by students, an effort by staff, and parents, for excellence in education. We have a slogan that we joke about that says, "We are not perfect but parts of us are excellent!"

We do have this upward thrust and, in fact, next month we are going to have students plan, they are in the process of planning, a week called Excellence in Education Week. It is not a minor effort. It is backed by students, thought up by them, and they also spend some time in raising funds to direct a pin being made which is a replica of the recognition flag that Secretary Bell gave us. Each of these lapel pins will be given to our high school teachers by their homeroom representatives.

We are a comprehensive urban high school, one of ten large high schools in Albuquerque, N. Mex. Our superintendent, Mr. Frank Sanchez, was a member of the commission which reported on "The Nation At Risk."

The Albuquerque Public School District is one of the large school districts in the Nation with approximately 75,000 students. My high school, Manzano High School, has an enrollment of 2,761 students. We are a 4-year high school. The school opened its doors in 1960. It has had three principals. I am its third and I have been there since 1981. The staff consists of four assistant principals, 176 professional staff members, 38 educational aides, 16 secretaries, 14 custodians, and 12 cafeteria workers, to give you a little idea of my school.

GOALS OF MANZANO HIGH SCHOOL

What have we done to become unusually effective?

How do we work with staff and parents and students to promote excellence?

And what is an effective school?

I happen to think the key word is "together." Although a large high school by most standards we go to considerable lengths to involve all school populations. Manzano has, I believe, been selected because we have promoted several simple goals: an emphasis on academics, the provision of an orderly and caring school environment, and we try to set higher expectations for our students' achievement. We feel we have worked on these together consistently and over a period of time.

Just a few brief words about each of these three points.

ACADEMICS

An emphasis on academics does not happen by chance, either. The staff has considered the best possible crafted curriculum to be a priority. It is reviewed and revised by departmental committee and teams on an annual basis. There has been an emphasis on improvement in reading, math, and writing skills across the curriculum.

In fact, we have published what we feel is quite a significant book that is used by all teachers to provide the students across the curriculum with a format for writing skills, and we have called it as of 2 years ago, "Students Guide to Academic Excellence," not knowing at the time that we would receive an award from Secretary Bell.

There has been a move on the part of teachers to articulate course content with our feeder schools. We have published this writing skills guide, we have increased our foreign language enrollment, we have promoted science offerings, we have added career awareness, we feel we have increased class-time effectiveness, reduced classroom interruptions, and have an awareness throughout the total staff that academic endeavors come first.

ORDERLY AND CARING SCHOOL ENVIRONMENT

A few words on the emphasis on an order and caring environment. We feel we have set forth reasonable, consistent, and fairly simple expectations for student behavior. An emphasis on attendance has yielded improvements, but there is still a way to go. Through incentives and consistent checking, Manzano now averages 6 percent absences, with statistics indicating a gradual increase in improvement. We have a decrease in student disruptions, which we feel parallels a no-nonsense approach to serious offenses, such as theft, vandalism, drugs, violence, fighting and the like.

At the same time, we have a school improvement team of 40 volunteer teachers who have organized over the last 3 years to emphasize campus beautification, and positive public relations. The campus, we feel, reflects a cleaner atmosphere and a renewed pride in Manzano.

Our public relations projects have reached out to parents, business people, including realtors, and the media, to promote an awareness that Manzano is an excellent place for learning and for students.

Our students have been included in all of these efforts, we feel, either through committees or student body votes. Have you ever seen a total student body vote on the color of paint to paint the lockers? Our students have been included. They have raised money for a mural that is now on our gym, that gives us an identity. They have bought aluminum letters for the side of the building, through student fund-raising events; in other words, I am talking about money, trying to make things work, trying to make it work for kids.

They have been involved in policymaking for assemblies, campus beautification projects, and campus clean-up. Now, I, as principal, have a student advisory group which meets regularly to advise on the operations of the school. A parent advisory is also active in school issues and public relations, in addition to seven active booster clubs for specific groups, such as band boosters or football boosters, and by the way, if you would pardon my biased opinion, our marching band is, as the kids say, "awesome."

HIGH EXPECTATIONS FOR STUDENT ACHIEVEMENT

The third point, an emphasis on high expectations for student achievement. We have attempted to raise expectations for all students, without, and this is the key phrase for me, without sacrificing concern for academic achievement according to ability. The Manzano staff has had several in-service sessions where we focused on how to convey higher expectations to students without relying on the simple solution that comes from lowering grades or giving F's. We felt that the higher expectations and carefully planned instructional studies that promoted learning through motivation, and increased interest levels on the part of students. Higher expectations meant more effective teaching methods, more individual encouragement and more emphasis on student performance according to ability.

I feel class size is directly related to the ability to do some of these things.

SCHOOL PRIDE PROMOTED

An emphasis on higher expectations also extends to non-classroom endeavors. In the area of extracurricular activities and athletics, student leadership workshops and projects which promote school pride were launched. I have with me a calendar of activities and each of these days is chockful of activities for students, and we would like to broaden that base.

We know that there is a high correlation between success in activities, success in school, and success in after-graduation endeavors. Representing Manzano, whether on the speech team or on the basketball court, we feel, promotes pride in self and in the school. Further, we have tried to improve conditions for students, such things as new water fountains, clean restrooms, newly painted locker areas, that I mentioned before, improved faculty lounge, bulletin boards displaying the news of the school, and so forth.

We have increased the level of student participation and involvement in the life of the school, and we feel that an active role in learning conditions.

As principal, my own efforts I hope have been to give support and direction to the staff and students. As I see it, this means a continuing response and interaction with students and the staff and parents, to provide an appropriate quality of school life.

I have worked for over 20 years with high school students and teachers. I have found them to be spontaneous, fair minded, intelligent, energetic. Most of all they are the best people I know!

Thank you.

Chairman DOMENICI. Thank you very much, Dr. Krueger.

[The prepared statement of Dr. Krueger follows:]

Feb. 21, 1984

EFFECTIVE SCHOOLS

Dr. Jo Ann Krueger, Principal
Manzano High School
Albuquerque Public Schools
Albuquerque, New Mexico

An effective school does not emerge by chance. It is a dynamic and directed process, not an event. It is rooted in and nurtured by an ecology of inter-related financial, physical, and human resources. To paraphrase John Donne (17th Century): "No school is an island...but a piece and part of the maine."

A school is a smaller version of the society that nurtures it. It is not an isolated, encapsulated entity. Rather, a school is a highly responsive and permeable extension of its community, reflecting for better or worse all of the elements present in its larger societal setting.

Many would have their schools rise above what is typical for the community. Like parents who hope that their children will grow to mirror the best that is in themselves as parents, the community would like their schools to reflect the best that is in the community. In other words, a school is usually expected to embody the best of its community environment and to demonstrate this excellence through student achievements and behavior.

I suspect that the more effective school does a better job of fulfilling this expectation than does the less effective school. I suspect that the more effective school marshalls its resources -- financial, physical, and human -- to promote a systematic design for continuous improvement in student learning and a positive quality of school life.

Last year Secretary Bell set in motion a process for identifying "unusually effective" schools. This process culminated in the selection of 152 secondary schools across the nation. Eighty-eight of these were high schools. My high school, MANZANO HIGH SCHOOL in Albuquerque, New Mexico, is one which proudly displays the specially designed flags given in recognition for "Excellence in Education." It is a recognition, by the way, which has not promoted complacency. On the contrary, it has provided an upward thrust and spiral for renewed efforts by students, parents, and staff to become the best that we can be. In fact our slogan seems to be: "We re not perfect, but parts of us are excellent." Next month our student government is sponsoring an "Excellence in Education" week with a number of events. The week will be highlighted by the presentation to each teacher by her homeroom student representative of a special "Excellence in Education" lapel pin. The pin is a replica of the recognition flag and was funded by special student fund-raising activities.

Manzano High School is a comprehensive urban high school, one of ten large high schools in Albuquerque, New Mexico. Our superintendent, Mr. Frank Sanchez, was member of the Commission which reported on "The Nation At Risk." The Albuquerque Public School district was the only school district to have four schools recognized by Secretary Bell's program. The district is among the larger ones in the nation, with 75,000 students. Manzano High School has an enrollment of 2,761 students. We are a four-year high school. The school opened its doors in 1960. Since then, it has had three principals. I am its third principal and have been at the school since 1981. The staff consists of four assistant principals, 176 professional staff members, 38 educational aides, sixteen secretaries, fourteen custodians and twelve cafeteria workers.

What have we done at Manzano to become "unusually effective"? How do we work with students, staff, and parents to promote excellence? And what is an effective school?

I think the key word is "together." Although a large school by most standards, we go to considerable lengths to involve all school populations.

Manzano High School was, I believe, selected because together we have promoted several simple goals: (1) An emphasis on academics, (2) The provision of an orderly and caring school environment, and (3) Setting higher expectations for student achievement. These goals have been set and worked on together, consistently and over a period of time.

(1) An Emphasis on Academics. The staff has considered the best possible crafted curriculum to be a priority. It is reviewed and revised by departmental committees and teams on an annual basis. There has been an emphasis on improvements in reading, math, and writing skills across the curriculum. We have shared successful teaching strategies, met with feeder school teachers to articulate course content, published a student guide to excellence in writing skills, increased our foreign language enrollment, promoted the science offerings, and added career awareness in post high school planning. We feel we have increased classtime effectiveness, reduced class interruptions, and have an awareness throughout the total staff that classroom endeavors come first.

(2) An Emphasis on an Orderly and Caring School Environment. Reasonable, simple, and consistent expectations for behavior were set forth. Firm and fair enforcement of policy and rules has been our goal. An emphasis on attendance has yielded improvements, but there is still a ways to go. Through incentives and consistent checking, Manzano now averages six percent absences, with statistics indicating gradual improvements. We have seen a decrease in student disruptions which parallels a "no nonsense" approach to serious offenses such as theft, vandalism, drugs, or violence.

At the same time a School Improvement Team of forty volunteer teachers has organized over the last three years to work towards promoting campus beautification projects and positive public relations. The campus reflects a cleaner atmosphere and a renewed pride in Manzano. Our public relations projects have reached out to parents, businesspeople (including realtors) and the media to promote an awareness that Manzano is an excellent place for learning and for students. Our students have been included in all of these efforts, either through student body votes or student advisory committees. Students have sponsored fund-raising events to provide a mural and school name in aluminum letters for the school. They have been involved in policy-making for assemblies, campus beautification projects, and campus clean-up. I (as Principal) have a student advisory group which meets regularly to advise on the operations of the school. A parent advisory is also active in school issues and public relations, in addition to seven active parent booster clubs for specific groups (such as band boosters or football boosters).

(3) An Emphasis on High Expectations for Student Achievement. We have attempted to raise expectations for all students, without sacrificing concern for achievement according to ability. The Manzano staff has had several in-service sessions where we focused on how to convey higher expectations to students without relying on the simple solution of lower or failing grades. We felt that higher expectations meant carefully planned instructional strategies that promoted learning through motivation and increased interest levels on the part of students. Higher expectations meant more effective teaching methods, more

individual encouragement, and more emphasis on student performance according to ability.

Emphasis on higher expectations also extended to non-classroom endeavors. In the area of extra-curricular activities and athletics, student leadership workshops and projects promoting school pride were launched. Broader participation by students is a continuing goal, since we know that there is a high correlation between success in activities, success in school and success in after-graduation endeavors. Representing Manzano, whether on the Speech Team or on the basketball court promotes pride in self and in the school. We like to praise our students and focus on their achievements. Further, we have continued to improve conditions for students and staff to the best or our financial resources, such as new water fountains, clean restrooms, newly painted locker areas, improved faculty lounge, and bulletin boards displaying news of school and student achievements. We have increased the level of student participation and involvement in the life of the school and in an active role in learning conditions.

As Principal, my own efforts have been to give support and direction to the staff and students. As I see it, this means a continuing response and interaction with students and staff to provide an appropriate quality of school life and an environment for learning. I have worked for over twenty years with high school students and high school teachers. They are spontaneous, fair-minded, intelligent, energetic, and caring. Most of all, they are the best people I know!

Summary

Schools are nurtured by an ecology of interrelated financial, physical, and human resources. An effective school reflects the best that is in a community. It needs adequate and sufficient resources to do this. But school effectiveness is ultimately determined by human factors.

Recognized as an "unusually effective" school by Secretary Bell's School Recognition Program, Manzano High School in Albuquerque, New Mexico, has emphasized (1) academics, (2) an orderly and caring school environment, and (3) higher expectations for student achievements.

Marshalling all resources, a school principal should provide support and direction for students and staff to increase the positive quality of school life and an environment which promotes learning.

* *

ADDENDUM

I aspire and subscribe to the successful school, as described by Dr. Conrad Briner, head of the Claremont Graduate School's department of education. He says:

> *"You give me the right kind of principal (working under the right kind of superintendent): an entrepreneurial principal who knows human development, particularly in relation to teaching and learning.*
>
> *"You give me a staff that can identify not only with those topics but with the principal, and regard him or her as being capable of instruction, direction, and even demand, but in the context of having a fix on leading that school somewhere.*
>
> *"And I'll show you students achieving (comparison to grade-level norms here or there makes no difference).*
>
> *"I'll show you students whose self-concept is one of worth, of being optimistic about the future."*

MANZANO HIGH SCHOOL

12,200 LOMAS BLVD., N.E. ALBUQUERQUE, NEW MEXICO 87,112

A PROFILE: JANUARY, 1984

Dr. J. A. Krueger, Principal
Dr. F. Coffee, Ass't Principal Mr. F. Love, Ass't Principal
Mr. E. Hawes, Ass't Principal Mr. Velasquez, Ass't Principal

ACCREDITATION
The New Mexico Department of Education
The North Central Association

THE COMMUNITY

Regional Population: Approximately 418,206. The metropolitan region accounts for one-third of the state of New Mexico's population, which is estimated at 1,359,000. Between 1970 and 1980, the population of Albuquerque's metropolitan area increased 35.9 percent.

City of Albuquerque: Approximately 332,336 population.

Economy: Government employment combines with wholesale/ retail trade and services, tourism, military, aero-space research and the University of New Mexico with its 23,407 students in contributing to the economy of the area.

THE SCHOOL DISTRICT

The Albuquerque Public Schools (APS) District is the thirty-first largest school district in the nation.

1983-84	Number of Schools	Population
Elementary Schools, K - 5	74	33,641
Middle Schools, 6 - 8	23	17,111
High Schools, Comprehensive	10	24,420
High Schools, Alternative	4	
Totals	111	75,172

THE SCHOOL

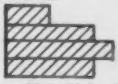
TYPE:	Four-year, public, co-educational, comprehensive high school. Manzano became a four-year school in 1977-78.
ENROLLMENT:	1980-81 - 3,079 students/Class of '81 - 682 graduates 1981-82 - 2,809 students/Class of '82 - 642 graduates 1982-83 - 2,741 students/Class of '83 - 609 graduates 1983-84 - 2,761 students/Class of '84 - 532 seniors
CLASSES:	Classes are fifty minutes in length, meeting five times a week with 36 weeks in the school year. The normal class load is five classes per student. However, nearly 44% chose to carry six classes in 83-84.
HONORS:	Honors, advanced placement, and enriched classes are offered in English, math, science, and social studies.
RANK IN CLASS:	Prospective graduates are ranked together on all subjects taken for credit in grades 9-12 through the 1st semester of the twelfth grade. Grades are not weighted for enriched classes, but are weighted for honors courses, as shown on individual student records. The four-point system is utilized.
NATIONAL MERITS:	National Merit Scholarship Semi-Finalists have numbered forty-eight from 1971 through the present year.
FOLLOW-UP:	Surveys of Manzano graduates show forty percent plan college enrollment.
FACULTY:	The 1983-84 professional faculty numbers 181 with 51% holding masters degrees and two percent holding PhD's.
COUNSELORS:	Ann Lehman, Chairperson Mike Collins, Counselor Carl Guevara, Counselor Frank Silva, Counselor Carol Stolle, Counselor Floyd Vasquez, Counselor

CLASS OF '83

Graduating Class of '83 . . . . 609 Graduates

Fifty-eight percent of these graduates completed the ACT college admissions test with 70 percent of these sending their score reports to in-state universities and 30 percent sending to out-of-state universities. The University of New Mexico enrolled 121 freshmen from Manzano in the fall of 1983.

Performance on Standardized Tests:
AMERICAN COLLEGE TEST (ACT) '82-'83



osite S. dard Score	Percent Scoring Within Interval	Number of Students
26 - 36	13%	46
21 - 25	27%	96
16 - 20	33%	117
1 - 15	27%	97
		356

Average ACT Composite: Boys, 19.4; Girls, 18.5; Combined, 18.9
National Average, 18.3

COLLEGE ENTRANCE EXAMINATION BOARD
SCHOLASTIC APTITUDE TEST - CEEB/SAT - '82-'83

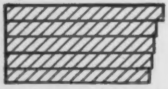
	Average Standard Scores		Number of Students
	Verbal	Math	
Boys	510	539	15
Girls	526	515	13
Combined MHS Av.	518	528	28
Nat'l Average	425	468	1,000,000

CLASS OF '84

Senior Class, 1983-84 . . . . 532 Seniors

The Class of '84 will be attempting to equal the records of previous graduating classes which for the past four years have won the largest number of Presidential Scholarships at the University of New Mexico as any high school in the state of New Mexico.

Performance on Standardized Tests:
NEW MEXICO HIGH SCHOOL PROFICIENCY EXAMINATION



Testing Year	Class of:	Percent Passing	Number of Students
1983	'85	98%	570
1982	'84	95%	580
1981	'83	94%	607
1980	'82	92%	697
1979	'81	91%	703

State-mandated in Feb. of Soph. yr. Gold seals at graduation.

PSAT/NMSQT - PRELIMINARY SCHOLASTIC APTITUDE TEST AND THE NATIONAL MERIT SCHOLARSHIP QUALIFYING TEST, October, 1982

	Average Standard Scores		Number of Students
	Verbal	Math	
Boys	43.2	48.4	61
Girls	39.2	41.3	78
Combined MHS Av.	41.0	44.4	139
Nat'l All-Jr. Av.	34.0	39.0	17,770

Chairman DOMENICI. I wanted you to know, Dr. Krueger, that I stepped out for a minute because the Secretary of Energy is in another committee, and I had to ask him two questions.

Thank you for your testimony.

We will proceed with the rest of the witnesses and then we will ask questions.

We are delighted to have with us Dr. Odden.

Do you want to proceed at this point?

Dr. ODDEN. Fine.

Chairman DOMENICI. Thank you very much.

Do we have prepared testimony?

Dr. ODDEN. Yes, you do.

Chairman DOMENICI. It will be made a part of the record[1] and you may proceed as you see fit.

STATEMENT OF DR. ALLAN ODDEN, DIRECTOR, EDUCATION FINANCE CENTER, EDUCATION COMMISSION OF THE STATES

Dr. ODDEN. Thank you very much.

My name is Allan Odden, and I am the Director of the Education Finance Center at the Education Commission of the States.

My testimony is a compilation of my own professional ideas and not official policy of the Education Commission of the States.

FINANCING EDUCATION REFORM

I would like to thank you very much for asking me to come and share with you some comments on the financing of education excellence initiatives.

New funds for education reform are in short supply around the country among the States. Any level of Government, Federal, State, or local, needs to consider very carefully where new dollars need to be targeted in order for us to accomplish some of our new goals.

Second, I would like to say that from the State perspective, the time is right for renewing education in this country. Business and political leaders at the State level see education as their number one priority.

Currently there are over 200 task forces, blue ribbon commissions, study commissions, et cetera, that have been initiated in the past year at the State level.

Third, public opinion polls show that improving the quality of education has risen to the No. 1 or No. 2 issue on the minds of the public. And also—in a sense, surprisingly—taxpayers in poll after poll conducted nationally and in different States and local communities indicate that education improvement is going to cost money, and they support in a ratio greater than 2 to 1, increasing taxes to pay for those new programs.

Fourth, while undoubtedly there is a Federal role in helping to move the country toward education excellence, the bulk of the new funds and the leadership probably is going to come from the States. In the past, in the eighties, so far, the States have provided $2 to $3 out of every new $4 appropriated for education.

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[1] See p. 439.

Last year States enacted the largest level of tax increases in the history of State government, and those tax increases combined with a growing economy will give States additional fiscal flexibility to finance educational reform initiatives.

Indeed, a number of the States have already increased taxes this year to fund education reform. Arkansas and Tennessee, I think, are the best examples. They increased State taxes more than a penny on their State sales tax as well as increased other taxes.

I think in this situation, an important role for the Federal Government, and was mentioned by Secretary Bell, is to do whatever it can do to keep the economy healing and growing. It is a critical issue at the State level for fiscal flexibility for financing education reforms.

STRATEGY FOR CHANGING EDUCATION SYSTEM

The issue for the States, as well as local school districts and the Federal Government, is to begin taking the many proposals from the various national reports and to rework them into a strategy, into a series of programs aimed at changing a relatively resilient education system.

That requires more than a series of mandates to do better and it also requires more than a series of new requirements making it harder for people to go into teaching, or for students to get out of high school.

It requires a strategy for changing a system and in general my comments will be in the form of a strategy. Before I lay out some of those elements, I would like to make two comments.

No. 1, the suggestions I am about to make apply to all levels of Government—States, local school districts, as well as the Federal Government—which want to get into and be part of the school reform and school improvement movement.

Second, my cost estimates should be viewed in light of current spending for education, which is about $3,000 per child on average across the country, for a total of about $120 billion as a combination of State, local, and Federal dollars.

Now to an education reform strategy and its costs.

In the private sector, when a business is not performing well, blame is usually laid at the feet of the managers and not the workers. I think a lot of the recent education reports tend to blame teachers and students for the problems in our education system. I would suggest, in terms of a strategy for reform, that we begin with the managers and the school as an organization, not the teachers and students.

SCHOOL IMPROVEMENT STRATEGIES

Therefore, my first suggestions for a set of activities designed to improve education in America focus on the management structure and organization of the work environment of the schools themselves.

And I have suggested three specific kinds of programs that should be initiated.

PRINCIPAL ACADEMIES

First would be the development of what I call principal academies, either at the local, at the State, or regional level. These can draw upon an emerging body of effective principal research that focus on the instructional leadership behaviors of principles, skills in critical observation and supervision skills, and skills for supervising teachers, and managing people in a collegial setting. My estimate is that a program like this, if developed in all States in the country, would cost about $5 a child, which is about a $200 million cost nationwide.

EFFECTIVE SCHOOL PROJECTS

Second, in this arena, focusing on the management and structure of schools, would be the development of a series of effective school projects to try to move all schools into the kinds of effective schools recognized last year by Secretary Bell. These can be developed, funded and organized locally, regionally or at a State level. They could draw upon the effective schools' research which identifies the characteristics of effective schools.

These programs would be implemented on a school-by-school basis and focused on developing clear goals, high expectations, a sense of efficacy on the part of both students and teachers, collegial interaction among teachers, a perspective that teaching is a schoolwide and not an individual isolated responsibility, and development of a norm of continuous improvement in schools.

There is also related research on education change that gives us techniques and strategies for moving schools from where they are into effective schools.

Again, programs like these could be developed at a cost of $5 to $10 per child; nationally, that would be $200 to $400 million.

Programs like these are now in effect in Arkansas, Colorado, Connecticut, Michigan, Pennsylvania, Ohio, South Carolina, and New York City, Milwaukee, and St. Louis, to name some places. These are not brandnew ideas; they are developing in some places but they need expansion.

IN-SERVICE PROGRAMS FOR TEACHERS

Third would be the development of what I call a series of staff academies for improving the instruction effectiveness of teachers. Again, there is a body of research on effective teaching on which we could draw to design these programs.

We know the strategies, behaviors and tactics that teachers use in classrooms that are effective in improving student performance; these span planning and organization activities, classroom management activities, as well as pedagogical skills.

We know what these skills are, we know how to develop training programs to enable teachers to get these skills, and we know that when these training programs have been used, teachers use the skills and student performance increases. In fact, in-service training programs based on the effective teaching research has been shown in some instances to increase student engaged learning time by a factor of 20 to 50 percent. Again, the cost of these programs are low. My estimate is around $5 a child, which is $200 million nationally.

Arkansas has probably one of the most exciting statewide programs of this type in the country, but Louisiana, Oklahoma, Pennsylvania, Minnesota, and California, also have programs of this type.

Combined——

Chairman **Domenici**. What are the colleges of education teaching if we have to provide all this separately?

Dr. **Odden**. Some colleges of education, are implementing some of these ideas and drawing upon this research, but most of the research to which I am referring has been conducted outside of colleges of education. The bulk of it has been funded by the National Institute of Education and I will come back and make a comment on that later.

It is creeping into the schools of education, but slowly. It is being used and developed primarily by State education departments and local school districts.

Combined, the school improvement programs would cost about $20 a child, about $800 million nationally, which is about three-fourths of 1 percent of current expenditures per child. I think these are critical, they set up the infrastructure for allowing the other kinds of reforms to be implemented successfully, and they are low cost and high gain initiatives.

DEVELOPMENT OF A SERIES OF INCENTIVES

A second priority item for education excellence dollars either from the Federal, State, or local level, would be the development of a series of incentive mechanisms within the public education system. The public education system in this country is essentially devoid of incentive mechanisms. Yet, incentives are needed to improve morale, maintain quality and spur innovation in excellence over time.

I would suggest taking another $10 to $20 per child or $400 to $800 million nationally and creating bonuses for schools which show productivity gains, grants for teachers to develop innovative programs at the grassroots level, the old Federal title IVC, which was merged into the chapter 2 block grant was an example—probably one of the most effective low-cost, high-gain programs that the Federal Government has ever initiated, grants for districts to develop creative initiatives and funds for administrators to identify ways to cut costs. The point is to spread around small amounts of dollars, seed money, if you will, probably on a competitive grant basis, to encourage—to sponsor innovative system mechanisms and activities in the system.

ADDITIONAL BASIC AND APPLIED RESEARCH

A third priority has to do with additional basic and applied research. Since many, if not most of the school improvement initiatives that have been initiated at the State and local level depend on—draw upon research conducted in the last 15 years, continued support of research and evaluation at both the Federal and State level, I think, should be a very high priority. The bulk of the effective teaching, effective schools and effective principal research was funded by the Federal Government, mainly through the National Institute of Education. The irony is that just as results of investment in the past 15 years is becoming very fruitful in the current initiatives to reform education, NIE's budget is being decreased systematically each year.

In my paper, most of my comments today are summaries of a paper I had published in the Phi Delta Kappa, in January, I suggested a doubling of the NIE budget from $50 to $100 million. Such an increase would likely reinstitute a number of the above research programs, as well as some new ones, and provide a research base for school improvement activities for 1990, and beyond.

States also have historically underfunded education research and I would suggest that States spend an additional $5 or $10 a child, or another $200 to $400 million nationally on research, policy analysis, and evaluation of the series of education reform initiatives that they now are initiating and implementing.

TEACHER COMPENSATION

A fourth proposal, and probably the biggest money item that I will discuss is teacher compensation. Research suggests that the quality of people qoing into and staying in the teaching profession is declining, and has been declining over time. One reason is salary. In my experience, there is a fairly strong consensus that the one big money item that should attract attention at the local, State, and Federal levels, concerns activities focused on recruiting, training and compensating teachers. Improving the attractiveness of teaching as a profession will require more than pay. It will require change in the structure of schools from bureaucracies to collegial environments, probably require the use of master teachers in what are now more administrative roles and it may require change in the role of principal to that of business manager.

The costs of various proposals for doing something with teacher compensation are substantial, and vary across the board. Overall increases in teacher salaries at just $5,000 a teacher, has a price tag nationally of $10 million. I would argue that just doing that without enacting some other structural changes would simply increase the cost of schools and might not have a major impact.

Raising beginning salaries is a low cost today, because there are very few new teachers being hired. Estimates for the next 10 to 15 years suggest that 75 percent of the teachers will turn over. So a policy focused on increasing beginning salaries, while cheap today, could be very, very expensive in a few years.

The consensus for changing teacher compensation seems to center on the career earning potential of teachers, whether it is called master teacher, merit pay, or career ladder plans.

The most widely known plan related to career ladder programs is the one from Charlotte-Mecklenburg, N.C. That plan, in the next 10 years, will increase the real earning potential of teachers by 50 percent.

The cost of that program is estimated to be only 10 to 15 percent of current salaries, which nationally would be $4.3 to $8.6 billion.

Not a small cost, but not a large cost when one considers that we are now spending $120 billion overall in education. A moderate cost for a plan that is designed to increase by 50 percent the career earnings for people who want to go into teaching as a profession.

There is a lot of activity on this particular issue now at the State level. As you know, in 1983, Florida, California, and Illinois passed versions of master teacher plans. Tennessee recently passed the most comprehensive plan that provides both greater career earning potentials for teachers and across-the-board salary increases. Tennessee, itself, is now slated to spend an additional billion dollars for teacher pay in the next 3 years. Arizona and Utah have passed plans which allow local districts to experiment with career ladder programs and Colorado, Idaho, Kansas, Maine, Maryland, New Jersey, North Carolina, South Carolina, Texas, Virginia, and Wisconsin have proposals before them focused on various new ways for compensating teachers, mainly looking at career ladder programs.

EXTEND SCHOOL DAY AND SCHOOL YEAR

The last area that I would like to address this morning has to do with the issue of more time, extending the school day and school year. This is a very expensive kind of policy option. Nationally increasing the day 20 percent could cost upward of $20 billion, and increasing the school year could cost another $20 billion, which together would be an additional cost of $40 billion.

The questions are whether that kind of a cost is really worth it, and whether there are other ways to get that kind of a time gain —20 to 40 percent—at a lower cost.

My first comment would be that there is very little evidence that increasing time so mechanistically will have much of an impact on student performance. The studies that compare student achievement in this country and with countries have included the variables of length of school day and length of school year as explanatory factors. Yet those variables account for very little achievement difference of the students in the different countries. What accounts for most of the achievement difference is the content of the curriculum to which the students are exposed.

Further, the issue is really, I think, better use of the current time available, and we know how to use current time better. As I mentioned earlier, staff training programs, based on these techniques from the effective schools research have been shown to increase student engaged time by a factor of 20 to 50 percent at very, very low costs.

Unless a greater increase in the students academic learning time is required, I would suggest that intensive in-service training may be all that is required.

But if the factor behind the proposals for longer school days and longer school years has to do with the curriculum to which students are exposed, my suggestion is that a policy focus at the Federal, State, and local level, on curriculum reform is quite in order.

We now know that a lot of the curriculum developed after Sputnik—when it was used and implemented appropriately—did have a major impact in increasing student performance. Estimates of effectiveness are in the range of an extra 13-percentile points. A mere $2.50 a child, or $100 million a year for the next 5 years targeted on curriculum development in a number of key areas probably would do more for improving the substantive content of curriculum and the achievement of students in those areas than either extending the school day or the school year, or increasing the number of graduation course requirements needed to graduate from high school.

The recent reports calling for the country to renew its efforts to improve public education have clearly struck a resonant chord in the public and among State political and educational leaders.

The country is alive with task forces, study commissions and legislative proposals targeted on improving schools. While the cost of education reform has been discussed very little to date, the fact is that many low cost programs can be enacted, which can be expected to have major impacts in bringing about education excellence.

Furthermore, both the States and the Federal Government can be involved in these ventures; such a partnership has worked in the past and such a partnership, I believe, can work today, too.

Thank you very much.

Chairman DOMENICI. Thank you very much, Dr. Odden.

[The prepared statement of Dr. Odden follows:]

Presentation to a Senate Budget Committee
March 4, 1984

Washington, D.C.

by Allan Odden, Director, Education Finance Center
Education Commission of the States

I would first like to thank you for asking me to provide you with some comments on financing education excellence. As you undoubtedly know, there is a great deal of activity across the country as states respond to the recommendations for education reform. The Education Commission of the States recently surveyed the states and found more than 200 state task forces working on proposals to improve the quality of education. One of the major differences between the nationwide response to the imperative to improve education now as compared to the time after Sputnik is that, today, governors and business leaders at the state level are leading the reform efforts, not just the federal government.

My topic this morning is the cost of various proposals for education excellence, a topic that has been sidestepped, ignored or not taken seriously in most education excellence debates, but a key topic nevertheless. To implement education excellence reforms, resources need to be placed behind new initiatives -- these revenues will need to come either from reallocation of current funds, through better management, or from new funds.

The critical questions are:

What functions or programs do education excellence reforms require?

How much do they cost?

Where can the resources be found?

How should they be allocated?

I have left with staff copies of a long article on these issues that I had published in the January, 1984 issue of The Kappan. I will today only highlight some points I make in that paper.

First, I have three general comments:

1) Nationally, and in this state, the politics are right for education reform -- business and political leaders are leading the push for education excellence; improving the quality of public education has again become a top priority for the public; and taxpayers in poll after poll indicate they are willing to pay more to improve education quality.

2) New funds are most likely to come from the states. The states provided the largest chunk of new resources for education in the 1970s, they have been providing 2-3 out of every 4 new dollars for education in the 1980s so far; and with state tax increases last year and an improving economy, states should have even more dollars to provide for education at least for the short term. Since state revenues are so dependent on a healthy economy, however, the fiscal ability of state governments will be affected significantly by the degree to which a growing federal deficit crimps national economic growth.

3) The major reason education is on political agendas is that education excellence is seen as a key for economic growth for

the country. The business community feels the country's economic strategy for the next 20 years depends on the ability of our workforce to produce more "value-added" to its products and services than workers in other countries. To do that we have to be smarter. To be smarter, we have to be better educated -- all of us -- not just the top 10%.

What are the key ingredients of needed education reform? The national reports provide some clues --

o higher standards
o better courses
o tougher courses
o more courses
o more time
o better paid teachers
o real accountability.

These may be important, but they do not separate low- from high-cost strategies, do not identify any sequence for reform, and include some high cost proposals that are not worth the extra expenditure. I will suggest both a sequencing of reform programs and will discuss 3 low-cost and 2 high-cost programs.

The first priority for education reform should be the support of a variety of school improvement strategies. Indeed, the education reform proposals have overlooked a successful, education reform movement already sweeping the country, that is important, successful and low cost. I'm referring to the school improvement movement, which is based on the effective principal, effective teaching and effective schools research. These exciting efforts across the country attempt to create in schools a philosophy of continuous improvement, a school norm of high expectations, the competencies needed on a school-by-school basis to develop and implement change programs that are effective, the skills for teachers to improve their instructional effectiveness, and the specific expertise needed by principals to be educational leaders.

Together, these activities build and sustain the infrastructure needed to implement current education reforms.

And there are important and critical roles that can be played by states and the federal government in these school improvement strategies.

I would suggest that the first draw on education excellence dollars be for support of a range of school improvement programs:

- principal academies
- inservice programs for teachers on effective teaching
- effective schools projects
- dissemination/adoption assistance.

Combined these activities could be funded for no more than $10-20/student which amounts to about $400-800 million nationally.

These programs already have been adopted in some states. For example, several states including Arkansas, Florida, Maryland, Michigan, North Carolina, Pennsylvania and South Carolina and a number of individual school districts have established principal academies to enhance the skills of educational managers. At first, these academies provided training in administrative skills; now they are beginning to address the tasks of instructional management. The newer programs emphasize clinical observation and supervision, the involvement of teachers in planning for the implementation of school reforms, and ways of aligning curricular objectives, instructional materials and achievement tests.

Several other states including Arkansas, Louisiana, Oklahoma and Pennsylvania and some school districts such as New York City have developed staff development programs for teachers based on the findings of research on effective teaching. These exciting and successful programs seek to give teachers special training in those techniques that research shows will improve instructional impact and thus student achievement. These programs seek to help teachers understand how planning and organization, their classroom management strategies and their instructional techniques affect student performance. Uniformly, these teacher institutes show participants how to increase their students' academic learning time -- time one task -- by 20 to 50 percent!

Still other states such as Alaska, Colorado, Connecticut, Michigan, Pennsylvania, Ohio and South Carolina and several other local districts such as Chicago, Milwaukee, New York and St. Louis have begun broad scale school improvement projects -- some of them specifically aimed at developing in participating schools the characteristics that research has associated with effective schools. These school improvement projects are school based, with technical assistance usually provided by staff from the state education department or regional, and federally supported, technical assistance centers. The major objective of these projects, which usually run from 6 to 36 months, is to increase the capacity of individual schools to provide better education programs.

Combined, these programs: (1) seek to improve the skills of the people already in schools; (2) are experiencing significant success; (3) cost very little; and (4) set the stage for the implementation of other reform proposals.

A second priority for education excellence dollars, also a low-cost item, should be the development of a series of incentives throughout the system to reward excellence, innovation and creative thinking. The current education system not only is dull but also is devoid of incentive mechanisms -- which are essential for morale, quality, innovation and excellence.

I would take another $10-20/pupil or $400-800 million nationally, and create:

o bonuses for schools which show productivity gains
o grants for teachers to develop innovative programs at the grassroots (the now defunct Federal Title IV-C program was probably the most well known program of this type)
o grants for districts to develop creative initiatives
o funds for administrators who identify ways to cut costs
o release time for teachers to develop good instructional programs that use the tools offered by the computer and telecommunications capabilities.

The point: develop 4-5 incentive mechanisms for the country's education system, and at a relatively low cost.

A third major priority for education reform dollars should be for additional basic and applied research. Since many -- if not most -- school improvement initiatives draw upon the findings of research conducted in the last 15 years, continued support of research and evaluation at both the federal and state levels should be a high priority.

The bulk of research on effective teaching and schools was funded by the federal government primarily through the National Institute of Education (NIE). Ironically, NIE's budget diminishes each year just as the results from previous research projects become most helpful. NIE's effective schools research program, for example, has been practically decimated. Doubling the NIE budget would require only an extra $50 million but would likely provide a research base for school improvement in 1990 and beyond.

States also have historically underinvested in sound research and evaluation, and could be well advised to spend $5/student -- $200 million nationally -- on more research and policy analysis.

A fourth major proposal, which is a high-cost one, is teacher compensation. Before identifying some of the costs, I want to note that improving the attraction of teaching as a profession requires more than a better pay package:

- it will require a change in the structure of schools from bureaucracies to more collegial institutions
- it will require the use of master teachers in what are now administrative roles -- such as staff developers, curriculum supervisors and department heads
- it may require change of the role of the principal to that of business manager, and
- it probably will require differentiated staffing.

What about the costs of improving teacher compensation?

Raising average salaries by $5,000 will cost $10 billion nationally. That is a very high cost, and without structural changes, would just increase costs.

On the other hand, the master teacher, career ladder plan being phased-in in Charlotte-Mecklenburg is estimated to cost only an extra 10-15% of current salaries, in part due to teacher demographics -- many teachers will retire in the next decade. Such a plan nationwide would cost between $4.3 and $8.6 billion, a large but more reasonable cost. And such a program would provide a major structural change in the compensation package for teachers -- it is estimated to increase lifetime earnings for a career master teacher by 50% from $600,000 to $900,000, and would be linked to more interesting career positions within teaching. Such a program, indeed, would enhance the attractiveness of the economics of choosing teaching as a profession.

On still the other hand, places like California have decided to raise radically beginning teacher salaries. The current cost of these programs is minimal -- very few beginning teachers are being hired! But when the bulk of teachers retire in the next 8-12 years, these strategies will be enormously expensive. In California the cost of this strategy is estimated to rise from $5-6 million now to $100 million 3 years from now.

The issue of teacher compensation is probably the major high-cost proposal that nearly all agree needs attention, and states now are debating a variety of such proposals.

o In 1983, Florida, California and Illinois passed versions of master teacher plans.

- Tennessee has just passed the most comprehensive plan for both greater career earnings potential and across the board salary increases for teachers. Tennessee will spend an additional billion dollars on teacher pay in the next three years.
- Arizona and Utah have passed legislation allowing local districts to try career ladder compensation program.
- Colorado, Idaho, Kansas, Maine, Maryland, New Jersey, North Carolina, South Carolina, Texas, Virginia and Wisconsin are examples of other states where the legislation is or will be dealing with various master teacher, career ladder or other variations of pay for performance plans proposed by blue ribbon task forces.

Finally, and fifth on my list this morning, is the issue of more time -- extending the school day or year or both. Nationally, increasing the day 20% might cost $20 billion. Extending the year by 20% to 220 days might cost another $20 billion nationally. The price tag is more than $40 billion if both proposals were adopted.

The questions are whether the cost is really worth it, and whether there are other ways to get that time gain at lower cost?

First of all, there is very little evidence that increasing time so mechanistically will improve student performance. Even for the studies that compare student achievement in the United States with other counties, the difference in the length of the school day or year does not account for achievement differences. The fact is that time per se is not the issue -- the issue is how time is used and what content is taught in the time available.

As mentioned earlier, we know how to use current time better. Using techniques from the research on effective teaching in a staff training program can result in increased student engaged learning time by 30-50 percent within current time allotments. Unless a greater increase in time is needed, intensive inservice training may be all that is required to increase student learning time.

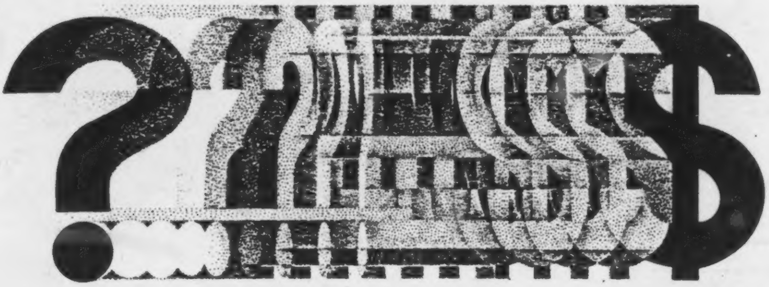
Secondly, if the factor behind the proposals for increased time is better achievement in key subject areas, policy makers might be wiser to focus on the content of curriculum to which students are exposed. While over half the states have raised, since 1980, the number of high school courses needed for graduation, there has been much less attention given to the content included in any of those courses. Indeed, we now know that many of the courses developed after Sputnik were successful, when used, in improving student achievement in math and science. A mere $2.50/child, or $100 million a year for the next five years, targeted on curriculum development in a number of key areas would probably do more for improving the substantive content in many high school courses than most of the proposals to simply have more of them.

The recent reports calling for the country to renew its efforts to improve the public education system have clearly struck a resonant chord in the public, and among state, political, education and business leaders. The country is alive with task forces, study commissions and legislative proposals targeted on improving schools. While the cost of education reform has been discussed very little, the fact is that many low cost programs can be enacted and can be expected to have major impacts in brining about education excellence. Furthermore, both the states and the federal government can be involved in these low cost ventures; such a partnership worked in the past and such a partnership can work today too.

FINANCING EDUCATIONAL EXCELLENCE

by Allan Odden

Restoring excellence to public education will probably cost money, says Mr. Odden. But reform by addition is not the only road to excellence; reform by reallocation and internal change may also be required.



RECENT NATIONAL reports have called attention to the importance of educational excellence; .consequently, outcries for major infusions of new money for education have been heard across the land. The requests for new money first began in early 1983, when the U.S. still showed no signs of recovering from one of the deepest and most prolonged recessions in its history. Indeed, funding for education had dropped (in real terms) in each successive school year since 1980,[1] and most experts on education finance had been suggesting that steady funding for education in the Eighties was an *optimistic* forecast.[2] Four factors seem to account for the recent turnaround in attitudes toward the funding of education.

First, the political context has changed. The improvement of education has become instrumentally linked to the key domestic issues facing the nation and each state: jobs and economic growth. At least partly as a result of this new context, the push for educational reform is being led by U.S. business and political leaders, especially state governors. Thus education has moved from the periphery to the center of political agendas.

Second, the fiscal condition of the states has improved.[3] In 1983 the states enacted the largest dollar amount of tax increases in history, both to finance realistic budgets and to create adequate "rainy day" funds. If the economy continues to improve, new dollars for education will also be available from natural growth in state tax revenues. Since states continue to provide the bulk of the increases in education revenues,[4] and since some states are likely to increase taxes in order to fund education reforms (Arkansas, South Carolina, Tennessee, and Virginia are now considering such proposals), there is reason to be cautiously optimistic about the fiscal condition of education. The level of fiscal growth experienced in the 1970s is unlikely, but revenues for education should at least keep pace with the overall growth in the economy for the remainder of the decade.

Third, the knowledge base for educational reform has changed for the better. The education community now has a rich research base that can be tapped to design successful school improvement strategies.

Finally, the public has changed; it now supports improvement in the quality of education and is willing to pay for it. This surprising finding has repeatedly emerged in recent public opinion polls conducted nationally, in several states, and in numerous localities.

Nevertheless, serious political, fiscal, and educational barriers to school improvement still remain. In this article I will explore several of the financing issues related to educational excellence. First, I will outline the functions and programs that are needed for educational excellence and estimate the attendant costs. Next, I will analyze the differences between financing excellence and financing fiscal equity. Finally, I will compare the politics of excellence and the politics of equity in school finance.

THE VARIOUS national commissions generally agree that educational reform is necessary, although the groups differ on the specifics of what needs to be done and by which level of government. They have proposed reforms in six general areas:

1. more intensive academic work (usually including such specifics as stiffer

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The research on effective schools has made it clear that the individual school is the proper unit for educational renewal.

high school graduation requirements, more challenging course content and textbooks, a stronger focus on higher-level thinking skills, and greater emphasis on mathematics, science, technology, and foreign languages);

2. better teachers (the reports most often mention increasing the number of academically able individuals entering and remaining in teaching, developing compensation plans for master teachers, and making instruction more effective);

3. better management of the educational system (including strengthening the skills of principals as instructional managers and computerizing administrative tasks);

4. greater accountability;

5. more time on task (sometimes including a longer school day or school year) and better use of available school time; and

6. more and better use of technology, both for administration and for instruction.

These recommendations focus on what might be called the hardware of educational excellence: programs, standards, and requirements. Uniformly absent is any mention of the software of educational excellence, i.e., the strategies that will move education from where it is to where the reformers would like it to be. As a result, the recommendations seem to propose "reform by addition": merit pay added to base pay, additional mathematics and science programs, additional testing programs, more course requirements for high school graduation. Since reform by addition costs money, the reports conclude that new sources of revenue must be found.

Restoring excellence to public education probably *will* cost money. But reform by addition is not the only road to excellence; reform by reallocation and internal change may also be required — and not solely on economic grounds. In fact, reform of the *process* of schooling may be a prerequisite for all other educational reforms. As John Goodlad has suggested, developing the capacity of each school to change and improve may be not only the best but also the *only* effective strategy for reforming education.[5] In other words, as Rexford Brown has stated, renewing education requires building bridges and roads over which educational reforms can travel.[6] The software of educational excellence, called "school improvement" in education circles, builds those roads and bridges by seeking to create a local capacity for implementing and managing change.

WHICH REFORMS, then, are needed for school improvement, and how much will they cost? Which programs should have the highest priority? And, beyond school improvement, what about the costs of other types of reform?

Research has defined the elements of school improvement fairly well. A considerable body of knowledge already exists on effective teaching practices and on the characteristics of effective schools.[7] Reformers have at their disposal a variety of strategies for developing the capacity of schools to solve their own problems and to make their own improvements.[8] A need exists for technical assistance centers, as well as for state education agencies and school districts that can function as "linkers" and "change agents."[9] Research has also suggested the most effective designs for state and federal programs aimed at school improvement.[10]

States, school districts, and individual schools are already using these findings to design and carry out a wide variety of initiatives to improve the quality of education.[11] Studies of the development, management, operation, and impact of these activities have been conducted in a number of states[12] and school districts,[13] and several findings from these studies are worth noting.

1. In the past three to five years, the most promising initiatives of state education agencies and of many local school districts have focused on school improvement.

2. The number of such initiatives is astonishing. All states and many school districts have at least one new program, and many of these new programs are interrelated.

3. The new programs are, for the most part, research-based.

4. The initiatives have brought a major change in the role of state education agencies (and sometimes in the role of central administrations within school districts). Formerly, these agencies performed a regulatory function. Today they provide technical assistance instead, aimed at helping teachers and schools develop a capacity for improvement.

5. The initiatives spring from strong leadership within the education community (usually from a chief state school officer or a school district superintendent). Moreover, all types of states are undertaking such initiatives — those with a history of strong leadership at the state level and even those without.

6. While politicians have been recommending specific routes to educational excellence, school improvement activities that actively contribute to excellence have often gone unrecognized and have been inadequately supported.

7. School improvement activities cost relatively little. Most of them have been supported in the past by the creative use of federal dollars from Chapter 2 and antecedent programs. As federal aid declines, however, the programs are jeopardized — at a time when they are crucial to educational excellence.

Three implications from these findings provide starting points for discussing how money might best be used to obtain educational excellence. First, many low-cost strategies are available to build the foundation for educational reform. Second, the movement toward educational excellence should build on the many activities already under way. Third, and most important, strategies aimed at educational excellence should support reforms at the level of the individual school.

The research on effective schools has made it clear that the individual school is the proper unit for educational renewal. Centralized standards and requirements may be necessary, but so is decentralized implementation. This simultaneously tight and loose approach is crucial to the success of any reform strategy. Each effective school is bound together by a belief structure, a value system, and a consensual — not a hierarchical — governance system. Policies that demand uniformity from school to school are likely to destroy these important elements.

These conclusions from research and the experience we have gained from school improvement programs that are already operational suggest various low-cost strategies to further educational excellence and to lay the foundation for high-cost strategies.

Low-Cost Strategies

Technical Assistance Programs

During the past decade, states, school districts, and the federal government have financed several types of programs that attempt, in one way or another, to improve the effectiveness of teachers, of principals and other administrators, and of entire school staffs. Individual programs to accomplish these goals cost about $1 to $3 per student; thus such programs can often be initiated simply by using current budgets for staff development differently. A comprehensive set of such programs (i.e., four or five) could be developed at a cost of about $10 per student — or about $500 million nationwide. Several kinds of technical assistance programs are already under way in various locales.

- *Administrator academies.* Several states (including Arkansas, Florida, Maryland, North Carolina, Pennsylvania, and South Carolina) and a number of individual school districts have established training programs to enhance the skills of educational managers. At first, these academies provided training in administrative skills; now they are beginning to address the task of instructional management. The newer programs emphasize clinical observation and supervision, human relations as one aspect of implementing change, and ways of aligning curricular objectives, instructional materials, and tests.

- *Teacher institutes.* Some states (including Arkansas, Louisiana, Oklahoma, and Pennsylvania) and some school districts (including New York City and Jefferson County, Colorado) have developed broad inservice training programs for teachers that stem from the findings of research on effective teaching.[14] Such programs are founded on the assumption that education will be reformed, in the main, by those individuals who are already in the system. These programs seek, therefore, to give teachers special training in those techniques that research shows will improve instructional effectiveness. These programs also seek to help teachers understand how their own attitudes and expectations, their classroom management strategies, and their teaching behaviors affect student performance. Uniformly, these teacher institutes show participants how to increase their students' academic learning time (or time on task).

- *School improvement projects.* Several states (e.g., Alaska, Colorado, Connecticut, Michigan, Pennsylvania, Ohio, and South Carolina) and several school districts (e.g., Chicago, Milwaukee, New York City, and St. Louis) have begun school improvement projects — some of them specifically aimed at developing in participating schools the characteristics that research has associated with effective schools. These improvement projects are school-based; they identify each school's strengths and weaknesses and establish priorities for improvement. They draw on personnel from state or local education agencies (and sometimes from nearby universities) to serve as "linkers" and "facilitators,"[15] and they generally continue for from six to 36 months. These school improvement projects draw on the research of Ronald Edmonds, Karen Louis and Sheila Rosenblum, David Crandall, and Paul Hood; their major objective is to increase the capacity of individual schools to provide educational excellence.

- *Dissemination programs.* The federally supported National Diffusion Network has successfully disseminated information across the U.S. on effective school programs and on well-researched instructional materials.[16] Arkansas, Georgia, Kansas, Minnesota, Vermont, Washington, and other states have also developed statewide programs to disseminate information on promising practices. Such dissemination programs seem likely to play a major role in popularizing the new programs in mathematics, science, and computer literacy that will no doubt be developed within the next few years.

"First, you have to get their attention."

Education has never used incentives extensively. It lacks mechanisms for stimulating and rewarding outstanding work.

- *Other approaches.* California has established regional teacher centers where teachers can learn to use computers effectively. Meanwhile, Tennessee has established area service centers, designed to provide a variety of technical assistance services to local school districts. These area service centers were created in an attempt to decentralize the state education agency.

Incentive Programs

Incentive programs can encourage change, but U.S. education has never used incentives extensively. Indeed, our educational system lacks mechanisms for stimulating and rewarding outstanding performance. A set of such mechanisms — again, costing about $10 per student or $500 million nationwide — would institutionalize rewards for superior work. These incentives could be of two kinds.

- *Grants for innovative programs.* Perhaps the best-known such effort is the old Title IV-C program, which enabled schools that wished to develop innovative programs to compete with one another for small federal grants. Many of the programs developed under Title IV-C were later validated for dissemination by the National Diffusion Network. Although it was low in cost, Title IV-C was clearly a high-gain program.[17] States might find it worthwhile to develop similar programs — particularly ones focused on the teaching of higher-order thinking skills and on the development of new programs in mathematics, science, and technology.

- *Bonus programs for gains in productivity.* No state currently has a program of this type, but many school districts do. The Columbia, South Carolina, school system, for example, provides small re-

The continuing support of research and evaluation efforts at both the federal and state levels should be a high priority.

wards ($2 per student) to those schools whose students make specified academic gains or reach a specified level of achievement. The Houston school district allows schools and individual teachers to earn small cash bonuses for gains in achievement and in other areas that are deemed important. Bonus programs do not have to be large or expensive. The recognition they provide is more important than the money.

Research

Since many – if not most – of the current school improvement programs rely on the findings of research conducted during the last 15 years, the continuing support of research and evaluation efforts at both the federal and state levels should be a high priority.

- *Federally supported research.* Most of the research on which current school improvement programs are based was supported by the federal government, primarily through the National Institute of Education (NIE). However, the NIE budget has been reduced significantly in recent years – and its research on school effectiveness has thus been cut severely. I believe that the NIE budget should be increased dramatically. Doubling the NIE budget would cost $50 million more than we now spend. This action would prove well worth the cost, since it would assure a research base for school improvement efforts in the 1990s and beyond.
- *State-supported research.* Some states now in the forefront of the school improvement movement (e.g., Michigan, Pennsylvania, and Delaware) have funded important research. In general, however, state support for research has never been great. Yet research could help state policy makers establish the answers to complex questions regarding the workings of state educational systems. State governments might also be wise to increase their support of the research and evaluation units of state education agencies – and to consider establishing institutes for policy research and analysis, as the state of Washington has recently done, to provide a sounder foundation for policy deliberations.

States could enact all of these low-cost programs to a greater or lesser degree and still keep the extra cost to between $10 and $20 per student, or less than $1 billion nationwide. Even if the other states were to use the California approach, in which schools receive about $100 more per pupil for school improvement initiatives, the extra cost would be only $4 billion nationwide.

High-Cost Strategies

Teacher Compensation

Nearly all the recent national reports suggest that the salaries of beginning teachers be raised. A variety of programs to increase career-earnings potential have also been proposed, under the rubrics of merit pay, master teacher programs, or career ladders. Concurrently, research on the recruitment, selection, and retention of teachers has documented significant problems related to the quantity and, more important, the quality of teachers and administrators – problems that would probably be ameliorated by better salaries.[18]

Most plans for raising the salaries of teachers focus on one of three components: the average, the beginning, or the total career salary. The costs and impacts of changes in each component vary. Raising the average salary of all 2.1 million U.S. teachers by $10,000, to make teaching more financially competitive with other jobs that require equivalent training, would cost more than $20 billion. Moreover, this change would not alter the structure of teacher compensation or the structure of education; it would only make the current system more expensive. Nevertheless, across-the-board increases might be an appropriate strategy in some areas, such as the Southeast, where teacher salaries are unquestionably low.

Increasing the salaries of beginning teachers might be more appropriate in regions where top salaries are high and beginning salaries remain in the $12,000 to $15,000 range, which makes it difficult to recruit new teachers. But the cost of this strategy is deceptively low today, when few new teachers are hired; the outlay of funds could escalate dramatically during the coming decade, when many teachers now in their fifties will retire and must be replaced. Some salaries peg the cost of the California program – which raises the salary of beginning teachers to $18,000 – at only a few million dollars today, but at more than $100 million in the foreseeable future.

Plans aimed at increasing teachers' career-earnings potential – the so-called master teacher plans – have the most merit. Such plans change the structure of teacher compensation by allowing significant salary hikes over a period of 20 years, a move that can increase the career-earnings potential of teachers by as much as 50%. When teaching offers more competitive salaries, the profession will be better able to attract highly skilled recruits. In Charlotte-Mecklenburg, North Carolina, a plan of this type is projected to cost only 10% to 15% more than current teacher salaries – which would translate to about $5 billion to $7.5 billion nationwide, a large but still reasonable figure.

In the long run, however, master

"Since our children were too stupid for college, we have enough to live quite comfortably."

teacher plans raise other serious questions. How will master teachers be used? Will they fill different roles from those of department heads and curriculum supervisors? How will master teacher plans affect the role of the principal? Is the concept of the principal as instructional leader consonant with the concept of master teachers? If master teachers became a reality, would we also be wise to reconsider the idea of differentiated staffing, for the sake of both effectiveness and economy?

Florida, California, and Illinois passed legislation in 1983 establishing master teacher programs, and this item is high on the 1984 legislative agendas in several other states.

Longer School Day and Year

Another costly proposal is to lengthen the school day, the school year, or both. Proponents argue that such competitors in the world market as Japan have longer school days and school years. Another rationale comes from the recent studies of time on task, which show that the amount of time spent on learning is positively correlated with the amount of learning that takes place. Extending the school day by 20% (from 6.5 hours to 8 hours) would cost more than $20 billion; lengthening the school year by 20% (from 180 days to 220 days) would also cost more than $20 billion. Doing both would thus cost at least an extra $40 billion, unless these expansions in services were financed on the backs of teachers and administrators.

There is little support from research to justify such large expenditures to increase school time, even though the arguments in favor of this strategy seem valid on the *surface*. In truth, the learning gains that accrue from longer school days or school years are either unknown or negligible.[19] Moreover, Japan provides a flawed example: secondary education is more intensive in Japan than in the U.S., but this does not hold true for education at the college and university level.[20]

Moreover, we could use the time now available for education in the U.S. more effectively, simply by making the content of textbooks and courses more challenging, raising the requirements for high school graduation, requiring more homework (and correcting it), reducing classroom interruptions, and increasing time on task. Altering the way teachers use time through inservice training that focuses on effective teaching strategies and good classroom management can also have substantial impacts on student achievement.[21] These approaches to increasing academic learning time are much more cost-effective than a longer school day or school year would be. These strategies would enable us to increase academic learning time in U.S. schools by 20% to 50%, at a cost of only $1 billion to $4 billion.

We could also increase instructional time for students at little cost by increasing class sizes. Some districts in Florida have already adopted this strategy. My point is this: some of the recent proposals that aim at educational excellence could be carried out without vast increases in funding, simply by altering current policies. At the very least, we should review such options and analyze the attendant tradeoffs.

Of course, lengthening the school day and school year for teachers – and raising salaries commensurately – could be justified as one way of strengthening the teaching profession. Indeed, many of the best teachers already put in days of nine hours or longer, and they use vacations to plan and prepare new instructional materials. Perhaps a formal policy to recognize this fact is already overdue.

New Programs

Adding new programs is an educational reform strategy with which most policy makers are comfortable, after 20 years of developing school finance reforms, compensatory education programs, and programs for handicapped students. Adding on is an expensive strategy, however, and thus generally used primarily in periods marked by rising revenues.

Nonetheless, some states may find it necessary to use this strategy – at least to some extent – in coming years. State laws that require minimum competency tests for high school graduation will probably prove to be unconstitutional, for example, unless these states also fund remedial education programs for those students who fail the tests. Another costly reform-by-addition that is currently sweeping the U.S. is mandatory kindergarten programs. Many programs for the handicapped still await full funding. And some states have not yet developed and funded an equitable fiscal structure for education.

But adding new programs is not the only way to achieve excellence. Improving the educational process is another route to the same goal. In fact, when new programs are added, the first priority should be to make certain that these new programs are incorporated into an already effective school curriculum. When this is the case, the new programs are likely to have more impact for less cost.

> But adding new programs is not the only way to achieve excellence. Improving the educational process is another route.

Technology

Greater reliance on technology can be either a high- or a low-cost strategy for achieving educational excellence. Stanley Pogrow has argued that some uses of technology can increase school services for little extra cost or hold school services steady when funding declines.[22] But Pogrow has also suggested numerous other uses of technology that, taken together, could cost a sizable amount of money.[23]

In order to calculate the real costs of using technology, we must consider not only the purchase prices of hardware and software, but also the costs of training staff members and of integrating this new technology into the curriculum. Moreover, we do not yet know which uses of technology have which impacts on which types of students. Thus we cannot accurately compare the cost-effectiveness of technology with that of other strategies.

FINANCING educational excellence requires more than knowing where to put our school improvement dollars. We must also understand: 1) the relationships between school finance reform and the financing of educational excellence, 2) the differing methods for reforming school finance and for funding educational excellence, and 3) the need for policy makers to consider both equity and excellence in their deliberations on curriculum and instruction.

Excellence vs. Equity

Serious tensions exist between equity and educational excellence. Some school finance reformers have referred to educational excellence, regrettably, as just another "fad" – as if excellence were inherently at odds with equity. Some proponents of excellence scoff, also regrettably, at fiscal equalization, as if large differences in the size of the resource base have no effect on quality. Table 1 summarizes some ways in which the goals, the focus, the mechanisms, and the impact of educational excellence differ from those of school finance equity.

To make new funds for reform available, we ought to merge pursuits aimed at excellence with those aimed at equity.

These differences are real, and we must recognize them. The movement for educational excellence is concerned with the quality of schools and thus with the use of dollars in the educational process, whereas the movement for equity in school finance is concerned with fiscal fairness and thus with the *level* and *distribution* of dollars. As a result, the methods used to allocate dollars tend to differ: incentive and reward programs for excellence, formula and reimbursement programs for equity.

But the critical question is whether conflict between the two movements is inherent. And the answer is no, although avoiding conflict will require careful attention to program design, allocation schemes, and the integration of policy.

From a technical point of view, the differences between excellence and equity can be resolved. Yet concerns that they will not be resolved persist.

- Some people worry that the concern for excellence will submerge the concern for fiscal equalization, that students from poor and minority backgrounds will be forgotten in the push for excellence (with its attendant emphasis on mathematics and science), and that the focus of the excellence movement on the *process* of schooling will erode the legal base for improving education for the poor (since the courts are reluctant to interfere with the educational process).
- Other people claim that the extra dollars now spent on fiscal equalization could be better spent on promoting excellence, that the fragmentation that equity necessitates is in conflict with the integration that school improvement demands, and that competitive grants are more likely than formula grants to stimulate efficiency.

These concerns are real, but they arise only when links between excellence and equity are overlooked. School finance reforms have their roots in attempts to improve the quality of education for students in economically deprived school districts. By the same token, the effective schools movement has its roots in attempts to improve the academic performance of poor and minority students. Meanwhile, most of the recent national reports on education have recommended that equity and excellence be pursued simultaneously through measures that benefit all kinds of students.

On economic grounds, the simultaneous pursuit of excellence and equity is mandatory. If our national strategy for maintaining a competitive edge in the international market is to increase the per-capita productivity of the U.S. workforce, then all U.S. workers must have better-developed skills than their counterparts in other countries. In other words, it will not be enough for the top 10% of workers in the U.S. to outperform the top 10% of workers in Japan, one of our chief competitors in the world market. The bottom 90% of U.S. workers will have to be better, too – and that is not the case today. Thus we must aim for educational excellence for *all* students.

Table 1. Dissimilarities in Approach Between Excellence and Equity

	Educational Excellence	Equity in School Finance
Goals:	Educational quality	Fiscal equity
Focus:	Educational processes	Educational programs
	Use of dollars	Level of dollars
	Gifted and talented students, average students, mathematics and science	Poor students, handicapped students, and low achievers
Methods:	Competitive grants	Formula grants
	Differentiation by quality	Differentiation by wealth
	Rewarding of school improvement	Reimbursing for costs
Impact and Style:	Tends to integrate for educational improvement	Tends to fragment for fiscal tracking
	Targeted aid: some districts get no aid	General aid: all districts get some aid
	Technical assistance	Compliance
	Lower cost	Higher cost

To make new funds for reform available, we ought to merge pursuits aimed at excellence with those aimed at equity. Reformers who focus on excellence could benefit substantially from the knowledge that school finance reformers have amassed on how to develop broad political coalitions that generate new dollars for education.

Methods of Financing

Programs aimed at excellence must be designed to insure that students in all types of school districts benefit. This means that we must pay careful attention to the methods we use to allocate funds for reform. Without careful attention, funds could be allocated in ways that work against equity and tarnish the objectives of both equity and excellence.

The data needs and distribution formulas for – as well as state and local roles in – the equalization of school finance are relatively well established. Pupil counts of various sorts, measures of property wealth and household income, and local tax rates combine to form the basic data base. Certain kinds of fiscal equalization formulas (foundation, guaranteed tax base, power equalization, and percentage equalization) are considered standard, and the formulas themselves define state and local fiscal roles.

The methods for distributing dollars for educational excellence are less well developed. We do not yet know how to "cost out" programs that are aimed at excellence. The current practice seems to be to guess what the number of master teachers might be, for example, and then to multiply that number by a fixed salary supplement, or to set quotas to fit a revenue figure – hardly scientific approaches. Moreover, because we do not yet know the full range of programs that will be aimed at excellence, we cannot yet describe in full the data that we will need. (It already seems clear, however, that we will require, at the minimum, such data as: uniform student test scores, compiled by student, classroom, school, and district; numbers of teachers in the various career-level categories; reports on school improvement processes that have been effectively employed at the district level; and information on successful curriculum reforms and innovative programs.)

Methods of allocating funds for excellence pose some of the most vexing problems. A perhaps-unconscious consensus seems to have developed that excellence initiatives are solely the responsibility of state government and that these initiatives should be funded to the same degree in both rich and poor districts. In Florida, California, and Illinois, for example, the state fully funds the salary supplements of those teachers who are included in the new master teacher plans. Districts with equivalent numbers of teachers who meet the state-established criteria receive the same amount of support, regardless of local wealth.

Serious questions can and should be raised about this approach to allocating dollars for excellence. First, this approach is likely, over time, to offset the effects of the formulas for fiscal equalization. Second, this approach assumes that the state carries the total financial responsibility for educational excellence.

An approach that would better meet the objectives of both equity and excellence would be to use fiscal equalization formulas to allocate the funds aimed at educational excellence. Rather than funding master teacher plans in full, for example, a state could fund the same percentage of teachers' salary supplements in a given district as it funds of the base educational program in that district under the general aid program. Or a state could use a separate formula to allocate proportionately more funds for excellence to poor districts. Another possibility would be for a state to fund in full only low-cost school improvement strategies, because the total costs are small and because most of the money will be used to purchase technical assistance from the state education agency.

If a state funds high-cost programs in full without allowing for differences in school districts' wealth, needless conflicts are likely to arise. A new wave of court cases involving school finance would probably be inevitable.

Equity in the Classroom

It has been argued that equity should become a concern at the level of individual schools and classrooms. Staffing patterns and curricular content, the mechanisms by which resources are allocated within individual schools, have been totally ignored by those reformers who have focused on equity in school finance. Only rarely have policies related to curriculum and teaching ever influenced the design of policies related to school finance.

In the lead article of a book devoted entirely to the links between school finance and school improvement, Michael Kirst argues that the tools of school finance analysis should now be applied to the development of policies on teaching and curriculum.[24] As matters stand at the moment, teachers often direct easy questions to slow learners and more challenging questions to brighter students, a practice that differentially allocates opportunities to learn. A study in California showed that students in poor school districts received fewer homework assignments in science and social studies — and thus fewer opportunities to learn — than did students in wealthy districts. Kirst also cites a study conducted in Florida, which found that curricular content was narrower and shallower in poor school districts than in more affluent ones. Moreover, in schools where the teachers have not been trained to manage their classrooms efficiently, students may fail to receive their fair share of academic learning time. And students who are "tracked" into different curriculum programs are often differentially exposed to learning opportunities over considerable periods of time.

Only rarely have policies related to curriculum or teaching ever influenced the design of policies related to finance.

Meanwhile, no study of effective schools has ever focused on a sample stratified by levels of expenditure. Thus we have no data enabling us to compare effective schooling in high-, average-, and low-spending school districts. Nor has there been any systematic attempt to find out how schools identified as exemplary differ from other schools in similar settings in the ways in which they allocate and use their resources. Such information could be of enormous value.

These examples show how issues of equity and excellence interrelate. In short, if we do not merge the policy and research concerns related to equity and excellence, needless problems and outright conflicts seem likely to arise. However, if we merge these concerns (paying careful attention to policy focus, program design, methods of allocation, and research findings), we can make gains on both fronts that would not otherwise be possible.

THERE ARE four similarities between the politics of excellence and the politics of equity. First, the impetus for each movement came from outside education. A desire for property-tax relief spawned the movement for school finance reform, and a desire for economic growth produced the calls for educational excellence. Second, the leadership of each movement has also come from outside education. Politicians and the courts led the school finance reform movement; politicians and business leaders are heading the movement for excellence. Third, both movements must forge political coalitions in order to get their programs enacted. Finally, both move-

"I hope those of you who turn out to be failures won't blame us."

The push toward educational excellence is irreversible, and the movement seems likely to benefit the public schools.

ments seem to deal with the issue of funding by making the most of available dollars. Neither has ever fully answered the question, How much will equity – or excellence – really cost? In the final analysis, of course, the answers depend on how much new money is available.

Some striking differences also exist between the politics of excellence and the politics of equity. First, the excellence movement has made the discussion of "lighthouse" school districts central to debates on educational policy, although these exemplary districts figured only tangentially in the earlier debates on school finance reform. Second, the movement to reform school finance paid careful attention to differences among urban, suburban, and rural constituencies – but these differences have seldom been discussed in the current debates about school improvement. Third, many school finance reforms created problems for property-rich but income-poor urban school districts, whereas many of the current initiatives for school improvement use strategies that were specifically developed to help poor and minority students in urban schools. Finally, the groups that support educational excellence (i.e., state governors, business leaders, and school officials in highly effective districts) are more narrowly traditional than the broad coalitions that have been involved in the movement for school finance reform.

These similarities and differences give rise to four concerns, as the excellence movement gains momentum.

1. We must not let the differences between the movements for equity and excellence fragment the education community and thereby decrease its potential for attracting new revenues. If reformers from both camps can agree today on low-cost strategies to improve the quality of education, they may also be able to build up the good will that will help them weather future tradeoffs necessitated by finite resources.

2. The important role that "lighthouse" school districts are playing in current discussions of educational excellence should not serve – even unconsciously – to divert us from the goal of fiscal equity.

3. We should make every effort to include poor and minority groups in the policy debates on educational excellence. All groups have a stake in the quality of education; therefore, poor and minority groups need to make certain that their special needs are not accidentally overlooked.

4. We should initiate activities that will demonstrate to governors, state legislators, business leaders, and school finance reformers that we can pursue excellence and equity simultaneously.

If we fail to address these concerns – if we ignore the issues of equity in our rush to deal with educational excellence – conflict, however unnecessary, may be inevitable.

THE PUSH toward educational excellence is irreversible, and the movement seems likely to benefit the public schools. The numerous national task forces have included in their proposals some of the high-cost strategies for achieving educational excellence (higher standards, tougher requirements, better programs), but successful reform must also focus on the development of lower-cost strategies for educational renewal (instructional effectiveness, effective schools, and the capacity for school-by-school improvement).

Whatever mix of strategies the individual states and school districts decide to use, they should begin with a careful needs assessment that includes accurate estimates of both long- and short-term costs. Then they must decide how to raise new funds, and they must distribute these new funds in ways that support both educational excellence and fiscal equity.

Excellence and equity are integrally linked. Together, they provide the key to improving the position of the U.S. in the world market, by enabling American workers at *all* levels to outperform their counterparts in other countries. Together, they are also the embodiment of the American dream, which focuses on maximizing potential rather than on reinforcing advantage.

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Chairman **Domenici**. Dr. Graham.

STATEMENT OF DR. PATRICIA ALBJERG GRAHAM, DEAN, HARVARD GRADUATE SCHOOL OF EDUCATION

Dr. **Graham**. Thank you very much.

My name is Patricia Albjerg Graham. I am the dean of the Graduate School of Education at Harvard University in Cambridge, Mass.

I would like to thank the committee for the opportunity to be here today to testify on a topic that I believe is important to all of us and to our country as a whole.

I would like to begin by congratulating Secretary Bell for his leadership in initiating much of the current—and I think vital—debate on education issues, both through his establishment of the National Commission on Education Excellence—which I believe has sustained, if not triggered, many of the reports to which Mr. Odden refers—and through his sponsorship of the forum in Indianapolis, Ind., in December 1983, which I was privileged to attend.

These debates, I think, are vital. Their concerns in my view, have correctly and properly focused on the twin pillars of excellence and equity, attributes that we have historically considered as hallmarks of our democratic society.

ALL CHILDREN ARE EDUCABLE

This debate is particularly significant, and I think what is most remarkable about the enduring litany of criticism regarding American public schools, both when viewed generally in its historical context and in terms of the particularities of its contemporary forms, is the prevailing sense that schools are important and that education of the young is a vital enterprise. One of the central characteristics of these reports and commission studies is to highlight the tacit assumption on the part of the American people that all children are educable, that all children can learn, and it is the responsibility of those of us who are educators to insure that all children do learn.

This is an altogether different task from previous attempts to enhance our educational arrangements, periods when we unfortunately tended to dichotomize the inseparable goals of excellence and equity to the detriment of goals themselves and the entire spectrum of schoolgoing youngsters.

The challenge to educators therefore is immensely greater today than it has been in the past, but, thankfully, we know a great deal more about educational practice than we did a quarter of a century ago. One of the indisputable results of educational research over the past 25 years is that our knowledge of effective teaching strategies is much better organized, codified, and even to some extent, disseminated, than was ever true before.

LITERACY IN THE 20TH CENTURY

A second reason that I value this national debate about education is that through this dialog I hope we will reach consensus about the schools' most important task. I personally believe that the single most important task for schools today is to assure that all children are literate in the 20th century meaning of literacy.

When I say the 20th century meaning of literacy, this is a special definition of literacy, one consistent with the increased complexity of life today. Such literacy is the ability to read, to communicate, to compute, to make judgments, and to take actions resulting from them. Literacy in the 18th century was the ability to sign your name; if you were not literate then, it was a handicap, but not a grievous one. Literacy in the 19th century was the ability to read simple prose; again, one could manage quite adequately, as many in America did, without this skill. Literacy today is both more complicated and more indispensable and the schools must accept the responsibility to provide this set of skills to each student, not just to the ones to whom such skills come easily, but also to those for whom such skills come with difficulty.

Today, advanced literacy is mandatory, not optional, and it is for everybody.

ROLE OF LOCAL AND STATE AGENCIES

A third positive aspect of our national debate I believe, is the implicit and explicit support provided to the notion of local and State control of, and accountability for, the educational enterprise. None of the reports with which I am familiar challenges the role of local and State agencies in overseeing the educational process and system in their locale. Yet, equally important, neither do the reports call for a diminished Federal commitment in fostering what is a clear national interest in helping our schools improve their performance.

Indeed, it is my firm belief that the Federal Government has a critically influential role to play in fostering both excellence and equity in education. In fact, the recent testimony of Archie LaPointe, Executive Director of the National Assessment of Educational Progress, before the House Committee on Education and Labor of this past January, dramatically highlights the achievements of past Federal aid to education.

Mr. LaPointe testified that during the period 1970 to 1982, data reveal improved performance in curriculum areas targeted for Federal funding, improved performance for groups of students for whom the funds were aimed, improved performance at levels of schooling targeted for funding, and improved performance in these areas of the country that were targeted for funding.

The data showed consistent patterns: in those curricula areas, in those schools, and for those students to whom Federal resources were targeted, academic performance improved. Conversely, in those curricula areas, in those schools, and for those students ignored or abandoned by Federal efforts, performance either declined or at best remained stable. Causation cannot be demonstrated, but the consistent patterns certainly lead me to believe that what we may be seeing here are the beneficial consequences of such programs as Head Start, Title I—now chapter 1—of the Elementary and Secondary Education Act, and the research activities concerning the teaching of basic skills undertaken by the National Institute of Education.

PRESIDENT'S FISCAL YEAR 1985 BUDGET FOR EDUCATION

Turning now to the President's fiscal year 1985 budget for education, it is mildly encouraging to note that after 3 years of requesting significant reductions in education programs, the administration has proposed slight increases in some areas for the next fiscal year. I would particularly applaud the Secretary's decision to aid in the implementation of some of the recommendations put forth in the series of national commission reports and studies by increasing the chapter 2 block grant request, by providing a $6 million increase for the vital research services of the National Institute of Education, by presenting a new math and science initiative, and by encouraging master teacher proposals and other forms of teacher incentives to be developed in conjunction with institutions of higher learning and funded through his increased discretionary fund.

Yet, even as I acknowledge these efforts, I must add that substantially more is urgently needed. For example, the increase in budget authority proposed for the National Institute of Education restores most of the fiscal year 1984 cutback, but it is sobering to note that the fiscal year 1985 request of a little over $54 million is still far below its $83 million funding level for fiscal year 1979. In other words, the fiscal year 1985 request still represents a very, very substantial cut. Similarly, although the increase in chapter 2 funding, the new math and science initiative, and the encouragement of master teacher proposals are positive signs, they do not meet the recommendations of either the 20th century fund report or the National Science Board report.

Concerning the technical fields of math and science in particular, it is instructive to note that the National Science Board report detailed a comprehensive $1.51 billion first year agenda for precollegiate education in math, science, and technology, while the House of Representatives has already passed a $425 million budget proposal to elevate instruction in math, science, and engineering. The administration's $50 million fiscal year 1985 request pales in comparison with these other initiatives.

EXPANSION OF CHAPTER 1 FUNDING

Further, I urge Congress to undertake a key role in assuring the qualities of excellence and social justice in our educational system. I can think of no better way to do this than to implement the provisions of chapter 1 legislation at the secondary level, and to increase funding of chapter 1 at the elementary level.

Chapter 1—title 1—was originally authorized for grades 1 through 12, but has not been fully funded; in fact, it is estimated that only about 40 percent of the eligible elementary schoolchildren receive such funding. Despite not reaching the whole of its intended population, however, appropriations for chapter 1 are generally concentrated on the primary grades. This orientation was, and is, extremely important. As the administration's budget document itself acknowledges, "evaluations have shown it—chapter 1—to be successful in increasing student achievement and in reaching its intended target group."

We can, I believe, transplant the accumulative wisdom of effective practices to the secondary level, while simultaneously increasing our commitment on the elementary level. Chapter 1 at the high school level, focusing on reading and math, may be belated, but it is certainly needed. In fact, it is likely that we would have seen even better levels of achievement if the program had been expanded and fully funded.

In this regard, I am pleased to mention that I am not alone in these views. In January of this year, Senator Bradley, of New Jersey announced that he intends to introduce legislation which will essentially accomplish what I have advocated—the expansion of chapter 1 funding to the high schools. In his proposal, Senator Bradley points out that less than 5 percent of chapter 1 funds are currently spent at the secondary school level, adding, and I heartily concur.

> I strongly support setting high standards for our students. But I am also concerned that without sufficient support, the higher standards will discourage the educational involvement of some students, rather than inspire their greater effort. We could actually see a rise in the number of students who drop out of schools because they consider their prospects for meeting the standards too remote to keep trying.

In some of our cities we have dropout rates among high school youths of 40 percent and higher. With 40 percent of the youngsters dropping out before they finish high school you can rest assured that those are not youngsters who are well-equipped to join the work force and have the kinds of literacy skills that are required. Something has got to be done for those children.

This question of higher standards without sufficient support, and consequently, higher dropout rates, is a very real concern on the part of many educators, along with substantial segments of the public at large. Without taking into account this legitimate and likely consideration, we run the risk of undermining our improvement efforts before they even get started, cutting against the grain of public opinion which calls for the education of all children, and fostering a devisiveness our Nation cannot tolerate.

HIGHER STANDARDS ACCOMPANIED BY CREATIVE MECHANISMS

I personally am very supportive of higher standards for all students at all grade levels—be it elementary, secondary, collegiate, or graduate—but I am also aware of the fact that these new standards must be accompanied by creative mechanisms to allow students who have not achieved in the past to start achieving now. It is a tremendous disservice to advocate higher standards in isolation from actual levels of performance. This perspective, incidentally, applies to teachers as well as students.

Before leaving this topic, I would add that I consider it inappropriate to propose that funds will be taken from chapter 1 to support a school voucher plan. I began teaching in the schools 29 years ago, and I have taught in both public and private schools. I personally respect this diversity as an important aspect of American education.

Notwithstanding this consideration, however, I believe it is worth observing that none of the previously mentioned national studies and reports, including the Commission on Excellence, either implicitly or explicitly, favored voucher proposals. This would indicate that even the diverse and bipartisan groups reflected in the composition of these commissions did not agree with the administration on the need to establish voucher programs, let alone administratively place them in such a way as to possibly divert chapter 1 funds.

I would suggest also that the overriding Federal interest in insuring our Nation a vigorous and sound public school system is not well served through the promotion of voucher options.

POSTSECONDARY PROGRAMS REDUCED

On the postsecondary level, I am disappointed to note that the special programs for the disadvantaged, better known as the TRIO programs, have been reduced by approximately 50 percent, that the graduate and professional opportunities program has been slated for elimination, and that the libraries program under the Office of Educational Research and Improvement has been, frankly, decimated.

Women's educational equity, currently funded at over $5.7 million, is slated for oblivion in the President's budget, an indication perhaps that the administration believes equity has been achieved for women in education. I believe that to be a most dubious notion.

The potential loss of talent to our Nation through the reduction of these programs is immense. We can ill-afford to cut dramatically programs which focus upon persisting equity issues in education while simultaneously proclaiming our commitment to enhance excellence. These dual goals must be considered as joint endeavors as we try to reform and upgrade our educational arrangements.

NEED FOR FINANCIAL AID

The issues of lost talent and lost opportunities naturally overlap with my concern for the general need for financial aid in education. The essence of federally supported financial aid for students is that higher education in this country is costly, both in terms of tuition and in lost opportunities for wages or salaries. Therefore, we have believed that if talent is to be developed in this society, the Federal Government is serving a national interest in providing various forms of financial aid so that students can complete undergraduate and graduate education.

The programs are complicated, but the thrust of this administration's budget proposal is clear: It is recommending less financial aid money in comparable dollars than was appropriated in 1980.

Let me use my own institution, the Harvard Graduate School of Education, as an example. The average age of our students is 31, so most come to us as previously employed persons in the field of education, a field that is not noted for making one wealthy. This past year the average debt level of a doctoral student upon leaving us was approximately $12,000. In certain cases, students have accumulated debts as high as $20,000. At these levels of indebtedness, students are less interested in returning to public elementary and secondary educational institutions, where the average annual salary for experienced teachers is approximately $20,000.

We cannot expect students in education to continue to accept those kinds of debt loans for a first-class graduate education and then go back and serve the public elementary and secondary sector, given the salary structures and working conditions in those institutions.

We believe that a primary challenge for Harvard School of Education is to eliminate the gap between what our students need and what we can offer. This means that without substantial increases in the money available for financial aid the problems we face in trying to attract students to careers in elementary and secondary education, and in helping them to finance their education, will continue to grow. These problems are particularly acute in terms of sustaining and enlarging our minority group enrollment.

During much of the 1960's and well into the 1970's, Federal funds covered the costs of graduate education, often through the National Defense Education Act, or through the Educational Professional Development Act. Those graduates could take jobs in low paying educational fields without a heavy debt load. Today, our graduates have heavy debt loads, and the price of accepting a low-paying job in education is very high for them. Their situation is not unique, yet if we wish to attract well-trained people to the field of education and I believe we must, their financial circumstances must be considered.

Let me conclude.

FEDERAL GOVERNMENT MUST INCREASE ITS EFFORTS IN EDUCATION

The wit and the character of the American people are this Nation's most valuable resource. Many institutions in the society have responsibility for nurturing them, but the preeminent responsibility for fostering the development of the wit and character of the American people rests with schools, colleges and universities. No Government, no Federal Government, can afford to ignore its most precious resource, particularly when there is ample evidence that the resource is not being adequately developed.

Such, in my view, is now the circumstance for the Federal Government in relation to its educational institutions. To protect and to promote this basic resource, the wit and character of the American people, the Federal Government must increase its efforts in education.

Thank you very much.

Chairman DOMENICI. Thank you very much, Dr. Graham.

[The prepared statement of Dr. Graham follows:]

Testimony, Senate Budget Committee

Washington, D. C., March 1, 1984

Patricia Albjerg Graham, Dean

Harvard Graduate School of Education

My name is Patricia Albjerg Graham. I am the Charles Warren Professor of the History of American Education and Dean of the Graduate School of Education at Harvard University. I have recently served on both the Twentieth Century Fund Task Force on Federal Elementary and Secondary Education Policy, and the National Science Board Commission on Precollege Education in Mathematics, Science and Technology. I would like to thank the Committee for the opportunity to be here today to testify on a topic so important to us all, to our country as a whole.

I would also like to take this opportunity to congratulate Secretary Bell for his leadership in initiating much of the current--and, I should add, vital--debate on educational issues. These concerns, in my view, have correctly and properly focused upon the twin pillars of excellence and equity--attributes we have historically considered as the hallmarks of a democratic society within a republican form of government, and goals we seek to enshrine in the hallways of our nation's public schools.

On August 26, 1981, when Secretary Bell established the National Commission on Excellence in Education, he was concerned about what he called "the widespread public perception that something is seriously wrong in our educational system." Since that time, and particularly over the last 9 to 12 months, we have seen the release of a number of provocative and profoundly disturbing reports, studies broadly representative of a national consensus that something *is* wrong, which have essentially confirmed that assessment. (To mention but a few of these reports, which have come upon us in swift succession: in April, 1983, the National Commission released *A Nation at Risk*; this has been followed by *Action for Excellence*, by the Education Commission of the States' Task Force on Education for Economic Growth; *America's Competitive Challenge*, by the Business-Higher Education Forum; *Making the Grade*, by the Twentieth Century Fund Task Force; *Educating Americans for the Twenty-First Century*, by the National Science Board Commission; *High School*, by Ernest Boyer for the Carnegie Foundation for the Advancement of Teaching; *The Good High School*, by Sara Lawrence Lightfoot of the Harvard Graduate School of Education; *A Place Called School*, by former UCLA School of Education Dean John Goodlad; and the recently published *Horace's Compromise*, by former Harvard Graduate School of Education Dean Theodore Sizer.)

Subsequently, the findings of these reports, and their recommendations, have been scrutinized and discussed in a variety of arenas, from formal, well-publicized sessions in the chambers of Congress to ad hoc parent meetings in the cafeterias of local schools. Indeed, this past December I returned to my native state of Indiana to attend the National Forum on Excellence in Education. There, together with some 2,300 other educators and policymakers representing all levels of local, state, and federal interests, we jointly enjoyed Governor Orr's "Hoosier hospitality" while addressing nitty-gritty matters pertaining to the enhancement and elevation of educational practice. In short, a valuable and urgently needed national debate has ensued, triggered by the report of the National Commission and stimulated by the National Forum.

This national debate is especially significant. What is perhaps most remarkable about the enduring litany of criticism regarding American public schools, both when viewed generally in its historical context and in terms of the particularities of its contemporary forms, is the prevailing sense that schools are important and that the education of the young is a vital enterprise. The particularly American component, discerned almost 150 years ago by French observer Alexis de Tocqueville and just as clearly present today, is an overriding faith and optimism in our national social will--the confident belief that schools can be improved.

In fact, to contrast our present outlook on educational reform with the orientations of the past, one of the central characteristics of the recent national reports and commission studies is to highlight the tacit assumption on the part of the American people that all children are educable, that all children can learn, and that it is the responsibility of educators to ensure that all do so. This is an altogether different task from previous attempts to enhance our educational arrangements, periods when we unfortunately tended to dichotomize the inseparable goals of excellence and equity to the detriment of the goals themselves and the entire spectrum of school-going youngsters in search of their realization.

The challenge to educators is immensely greater today than it has been in the past, but, thankfully, we now know a great deal more about educational practice than we did a quarter century ago. One of the indisputable results of educational research over the past 25 years is that our knowledge of effective teaching strategies is much better organized, codified and--even to some extent--disseminated than has ever been true before. We need and expect the talent of all youngsters to be fully developed now, both because it is right and because it is necessary. Both social will and educational expertise are required; of the two, the will is more difficult and more important than the expertise.

A second reason why I place so much emphasis on the burgeoning debate over educational issues is that it focuses attention upon certain lingering questions in our national life: questions having to do with why do we educate, and what are the purposes of education in our society? These are questions which we, historically, have been hesitant to confront for a variety of reasons, admitting that to some extent the answers change as we reassess the needs of our society and revise our notions of what we want for ourselves and how to achieve our dreams.

Today we much reach consensus about the schools' most important task. I believe that their most important single task is to assure that all their students are literate in the twentieth century meaning of literacy. This is a special definition of literacy, one consistent with the increased complexity of life today. Such literacy is the ability to read, to communicate, to compute, to make judgements, and to take actions resulting from them. Literacy in the eighteenth century was the ability to sign one's name, and if one were not literate then, it was a handicap but not a grievous one. Literacy in the nineteenth century was the ability to read simple prose, and again, one could manage quite adequately--as many in America did--without this skill. Literacy today is both more complicated and more necessary, and the schools must accept their responsibility to provide this set of skills to each student, not just to the ones to whom such skills come easily but also to those for whom such skills come with difficulty. Today advanced literacy is mandatory, not optional, for everybody.

Moreover, to focus upon literacy is not to exclude consideration of other important aspects of learning and of social development that ought to occur during childhood and youth. It is more than a call for "back-to-basics"; it is a call "forward to complexities." Among these are the development of creative thinking, of social awareness, of ethical concerns, of democratic convictions appropriate to our society. Both social justice and productivity will be further delayed and diminished if large numbers of our young people fail to acquire these vital skills.

A third positive aspect of the national debate is, I believe, the implicit and explicit support provided to the notion of local and state control of, and accountability for, the educational enterprise. None of the reports with which I am familar seriously challenges the role of local and state agencies in overseeing the educational process and system in their locale--yet, equally important, neither do the reports call for a diminished federal commitment in fostering what is a clear national interest in helping our schools improve their performance.

Rather, just as the reports emphasize strengthening the essential pedagogical triangle of teacher-student-subject matter, so too do they attempt to balance the essential political triangle of local, state, and federal involvement in education. And, indeed, it is my firm belief that the federal government has a critically influential role to play in fostering excellence and equity in education. As we noted in the Twentieth Century Fund report, the federal government "is in the best position to focus public attention on the vital importance of quality in our schools and to support its attainment." This can be accomplished, the report continues, by "serving as a firm but gentle goad to states and local communities without impeding or restricting" their overall responsibility.

In fact, the testimony of Archie Lapointe, executive director of the National Assessment of Educational Progress, before the House Committee on Education and Labor on January 31 of this year dramatically highlights the achievements of past efforts of federal aid to education, assistance achieved without undue interference into state and local accountability.

Surveying the period 1970-1982, Mr. Lapointe testified that NAEP data reveal improved performance in curriculum areas targeted for federal funding; for groups of students targeted for funding; in schools targeted for funding; at levels of schoolings targeted for funding; and in areas of the country targeted for funding. Specifically, the NAEP data indicate that the most impressive gains were demonstrated in the reading scores of Black, 9- and 13-year-old school children, particularly those residing in the southeast region of the country.

While, of course, it would be incorrect, as Mr. Lapointe notes, to make causal assertions from the data, it is not, I believe, coincidental that sixty to seventy percent of the Elementary and Secondary Education Act (ESEA) funds during this period were allocated to various types of reading projects at the elementary school level. The data show a consistent pattern: in those curricular areas, in those schools, and for those students where federal resources were targetted, academic performance improved; conversely, in those curricular areas, in those schools, and for those students ignored or abandoned by federal efforts, performance most likely declined, or at best remained stable. Again, causation cannot be demonstrated, but the consistent patterns certainly lead me to believe that what we may be seeing here are the beneficial consequences of such programs as Head Start, Title I (now Chapter I) of the Elementary and Secondary Education Act, and the research activities underlying the teaching of basic skills undertaken by the National Institute of Education.

Turning to the President's FY85 budget for education, it is mildly encouraging to note that after three years of requesting significant reductions in education programs (a 16 percent reduction in FY82, 29 percent cut in FY83, and 13 percent in FY84), the administration has proposed a slight increase for FY85.

In particular, I would applaud the Secretary's decision to aid in the implementation of the many recommendations put forth in the series of commission reports and national studies by (a) considerably increasing the Chapter 2 block grant request (+235M) for state and local educational agencies to improve and strengthen instructional practices, (b) providing a $6 million increase for the vital research services of the National Institute of Education, (c) proposing a much-needed new math and science initiative (+50M) focusing upon teacher training, and (d) citing an interest in encouraging master teacher proposals and other teacher incentive structures to be developed in conjunction with institutions of higher learning and funded through his increased discretionary fund (+14M). Enhancements in these areas are especially important insofar as they indicate a federal interest in spurring higher standards for practice and achievement, and demonstrate a responsiveness to central concerns articulated in the national debate.

Yet even as I acknowledge these efforts I must add that substantially more is urgently needed. For example, the increase in Budget Authority for the National Institute of Education restores most of the FY84 cutback, but it is sobering to note that the FY85 request of $54.23 million is still far below the FY80 appropriated level of $74.11 million. Similarly, although the increase in Chapter 2 funding, the new math and science initiative, and the encouragement of master teacher proposals are positive signs, they do not meet the recommendations of either the Twentieth Century Fund report or the National Science Board report. Concerning the technical fields of math and science in particular, it is instructive that the National Science Board report detailed a comprehensive $1.51 billion first-year agenda for precollegiate education in mathematics, science and technology--specifically estimating federal matching grants for teacher training at $349 million annually--while the House of Representatives has already passed a $425 million legislative proposal to elevate instruction in math, science and engineering. The administration's $50 million FY85 request pales in comparison with these other initiatives.

Further, I urge Congress to undertake a key role in assuring the qualities of excellence and social justice in our educational system. I can think of no better way to do this than to implement the provisions of Chapter 1 legislation at the secondary level, and to increase funding of Chapter 1 at the elementary level.

Again, it is a somewhat positive sign to note that, overall, ECIA-Chapter 1 has been level-funded at $3.480 billion, with grants to LEA's earmarked for an increase of approximately $30 million. Yet, again, this is still $.2 billion in Budget Authority below the current policy estimate for FY85, and, I would argue, below what I consider the growing national need.

Title I was originally authorized for grades 1 through 12, but has not been fully funded, with appropriations generally concentrated on the primary grades. This orientation was, and is, extremely important. As the budget document itself acknowledges "evaluations have shown it (Chapter 1) to be successful"--and I would add remarkably successful--"in increasing student achievement and in reaching its intended target group." We can, I believe, transplant the accumulated wisdom of effective practices to the secondary level, while simultaneously increasing our commitment on the elementary level. Chapter 1 at the high school level, focusing on reading and math, may be belated, but it is certainly needed. In fact, it is likely that we would have seen even better levels of achievement if the program had been expanded and fully funded.

In this regard, I am pleased to mention that I am not alone in my views. In January of this year, Senator Bill Bradley of New Jersey announced that he intends to introduce legislation which will essentially accomplish what I have advocated--the expansion of Chapter 1 funding to high schools. Senator Bradley's two-phase proposal--first, $100 million would be made available on a competitive basis to schools with high proportions of low-income youth to initiate and evaluate approximately 200 demonstration programs, second, $800 million would be made available on a formula basis to state departments of education in order to replicate successful programs and techniques--would provide remediation for approximately 1.4 million students, and represents the same level of funding currently provided under Chapter 1 for elementary education.

In framing his proposal, Senator Bradley points out that less than five percent of the Chapter 1 funds are currently spent at the secondary school level, adding--and I heartily concur--that "I strongly support setting high standards for our students. But I am also concerned that without sufficient support, the higher standards will discourage the educational involvement of some students, rather than inspire their greater effort. We could actually see a rise in the number of students who drop out of schools because they consider their prospects for meeting the standard too remote to keep trying."

This is a very real concern on the part of many educators, along with substantial segments of the public at large. Without taking into account this legitimate and likely consideration, we run the risk of undermining our improvement efforts before they even get started, cutting against the grain of public opinion which calls for the education of all children, and fostering a divisiveness our nation cannot tolerate. I am personally very supportive of higher standards for all students at all grade levels--be it elementary, secondary, collegiate, or graduate--but I am also aware of the fact that these new standards must be accompanied by creative mechanisms to allow for their achievement. It is a tremendous disservice to advocate higher standards in isolation from actual levels of practice. This perspective, incidentially, applies to teachers as well as students.

Before leaving this topic, I would add that I consider it inappropriate to propose that funds will be taken from Chapter 1 to support a school voucher plan. As a former teacher in both public and private secondary schools, I personally respect diversity as an important aspect of American education. Notwithstanding this consideration, however, it is worth observing that none of the previously mentioned national studies and reports either implicitly or explicitly favored voucher proposals. This would indicate that even the diverse and bipartisan groups reflected in the composition of these commissions do not agree with the administration on the need to establish voucher programs, let alone administratively place them in such a way as to possibly divert Chapter 1 funds. I would suggest, also, that the overriding federal interest in ensuring our nation a vigorous and sound public school system is not well served through the promotion of voucher options.

On the postsecondary level, I am disappointed to note that the Special Programs for the Disadvantaged (better known as the TRIO programs) has been reduced by approximately 50 percent, that the Graduate and Professional Opportunities Program has been slated for elimination, and that the Libraries Program under the Office of Educational Research and Improvement has been, frankly, decimated. Women's educational equity, currently funded at over $5.7 million is slated for oblivion in the President's budget, an indication perhaps that the administration believes equity has been achieved for women in education, a most dubious notion, I believe.

The TRIO programs have been largely successful in increasing the numbers of disadvantaged and underrepresented youth who have the opportunity to attend college; since 1969, three major evaluations of the Upward Bound program have documented its success in this area. The potential loss of talent to our nation through the reduction of this and the other TRIO programs is immense. We can ill afford to cut dramatically programs which focus upon persisting equity issues in education while simultaneously proclaiming our commitment to enhance excellence--these dual goals must be considered as joint endeavors as we try to reform and upgrade our educational arrangements. Likewise, elimination of the library programs represents another lost opportunity. Not only are these programs invaluable in and of themselves, they also offer important resources upon which we can expand the configuration of institutions which perform an educative function in our society--and in so doing foster our capacity for both immediate and life-long learning (an important goal in just about all of the national reports).

The issues of lost talent/lost opportunities naturally overlap with my concern for the general need for financial aid in higher education. The essence of federally-supported financial aid for students is that higher education in this country is costly, both in terms of tuition and in lost opportunities for wages or salaries. Therefore, we have believed that if talent is to be developed in this society, the federal government is serving a national interest in providing various forms of financial aid so that students can complete undergraduate and graduate education. The programs are complicated, but the thrust of this administration's budget proposal is clear: it is recommending less financial aid money in comparable dollars than was appropriated in 1980 (92.9% of adjusted FY 1980 appropriation).

Let me use my institution, the Harvard Graduate School of Education, as an example. The average age of our students is 31 so most come to us as previously employed persons in the field of education, a vocation not noted for making one wealthy. This past year the average debt level of a doctoral student upon leaving was approximately $12,000. In some cases students have accumulated debts as high as $20,000. At these levels of indebtedness students are less interested in returning to public elementary and secondary educational institutions, where the average annual salary for experienced teachers is approximately $20,000. Over three-quarters of our 1983 graduates, in fact some 77 percent, earn a salary below $25,000.

We believe that a primary challenge for the Harvard Graduate School of Education is to eliminate the gap between what our students need and what we can offer. This means that without substantial increases in the money available for financial aid, the problems we face in trying to attract students to careers in elementary and secondary education and helping them to finance their education will continue to grow. These problems are particularly acute in terms of sustaining and enlarging our minority group enrollment. To illustrate the overall problem in the current 1983-84 academic year, the Harvard Graduate School of Education has disbursed $3.81 million in financial aid for our students. Of this amount $889,000, or 23 percent (approximately ten percent of our annual instructional budget), was in the form of grants derived from Harvard funds, while the remainder, some $2.92 million, was in federal loans or work-study funds. During much of the 1960's and well into the 1970's federal funds covered the costs of graduate education, often under the Educational Professional Development Act, and those graduates could take jobs in low-paying educational fields without a heavy debt load. Today our graduates have heavy debt loads, and the price of accepting a low-paying job in education is very high for them. Their situation is not unique, and if we wish to attract well-trained people to the field of education, their financial circumstances must be considered.

To conclude, the wit and character of the American people are this nation's most valuable resource. Many institutions in the society have responsibility for nuturing them--families, communities, religious organizations--but the preeminent responsibility for fostering the development of the wit and character of the American people rests with schools, colleges, and universities. No government can afford to ignore its most precious resource, particularly when there is ample evidence that the resource is not being adequately developed. Such is now the circumstance for the federal government in relation to its educational institutions. To protect and to promote this basic resource, the wit and character of the American people, the federal government must increase its efforts in education. That federal support for American schooling should supplement, not supplant, state and local efforts makes its need no less pressing.

Only the federal government can assert and emphasize the national interest in education of high quality and in assuring that all children have access to such institutions. The wit and character of all Americans need support, and the federal government has the responsibility to provide assistance in meeting this preeminent national need.

Chairman **Domenici**. Senator Chiles, do you want to start?

Senator **Chiles**. Thank you, Mr. Chairman.

I want to thank our panel for their testimony.

Dr. Krueger, my State is one of the fastest growing States in the country. We exceeded 10.5 million people. There are all kinds of stories that show we are going to be anywhere from third to fourth in population by the 1990's. We are growing faster than we possibly can, and I wish we were not growing that fast. But like the Marine Corps, we have room for a few good people. And if you would be interested in leaving New Mexico, I want you to know that we could find a job for you in our school system now.

Dr. **Krueger**. Thank you very much.

BEST TEACHERS ARE MADE ADMINISTRATORS

Senator **Chiles**. Your testimony is tremendously heartening to us, to see what has been done in your area and in your school. I think it really underscores the importance of motivation and leadership for our students.

What I have seen happen many, many times is that we have taken our best classroom teachers and made administrators out of them. We have taken our best football coaches and made administrators out of them. It looks like the only way you can reward someone financially. But often they do not turn out to be as good at administration, as they were at teaching. But you are certainly one that I am glad became a principal. I am sure you were a master teacher to start with.

Dr. **Krueger**. Every good administrator was at one time a good teacher.

VOCATIONAL EDUCATION BILL

Senator **Chiles**. I would like to ask you whether you have had a chance to look and see what Senator Domenici and I are trying to do in our vocational education bill. I would like to have your comments from your perspective and then Dr. Odden and then Dr. Graham, for yours, as to whether you think that the bill addresses the needs of our economic problems. Does it respond to the needs of the students, some of whom can be motivated in the classroom, some of whom have got to have job training programs. Does it motivate the States?

Dr. **Krueger**. Could I ask you a question first? Because I am unaware.

Is your bill directed only at the secondary or high school level? Is it directed also at post-high school endeavors, such as technical vocational institutes?

Senator **Chiles**. Yes.

Dr. **Krueger**. Well, I would certainly heartily support that and I am going a little bit on what I heard Secretary Bell say.

Can I also assume that there is some leeway at the local and State levels to channel these funds according to the needs as the community sees it?

I need to ask you if there is some way in which the bill prescribes how that money is spent at the local level, or is there a degree of flexibility?

Senator **Chiles**. What we are trying to do is to ask each State to come up with its plan identifying what they think their goal should be and how they would utilize this money. Then the Federal Government would approve their plan and we would monitor it to see if its being followed.

That is the way we would grade it.

Dr. **Krueger**. I see. Then I would certainly heartily support it, especially if it is across the secondary to the postsecondary.

I think that the high school has a challenge and certainly an obligation to help its students keep its—or their options open. In other words, there is a thing that I feel quite strongly, and I have not read it in many of the research literature, any such thing, but I liken high school students' career readiness to a reading readiness. They just are not all ready at the right time and they will not do or learn or act unless they are ready or their parents force that issue, and some parents have that same degree of career readiness toward their own children.

So what I am trying to do is not so much dodge your question as to say that I heartily believe that high schools have this obligation to help their kids keep their options open.

THREE OPTIONS

Senator **Chiles**. Maybe I could put it a little bit better if I said it is like looking at three options here. Part of the thrust is to fund 18 or 19 categories of vocational education and to set those 18 or 19 categories. The administration, on the other hand, says we are just going to make a block grant of this $1 and $10 that we are giving for vocational education. We are going to send that down to the States and do right, and we wish you well with the money. The bill Senator Domenici and I are talking about comes somewhere in between. It says every State has a different set of problems. We recognize that. We are trying to train different sets of workers so we are not going to try to prescribe for you exactly how you do it. You come with what you think your plan should be, we will look at that plan, we will agree with that and then we will give you the money. Then we will want to look and see how you are doing in that plan.

Dr. **Krueger**. I would support that very much and let my colleagues go ahead and respond.

Dr. **Odden**. I have not had a chance to review or see the bill.

I think the one comment I would make, though, and I think it reflects comments Pat made earlier, is that the real need for most students who typically get into vocational education training programs is less for specific job training and more for basic skills—literacy, computation, computing, and thinking skills, as well as a job behavior skills such as getting up and going to work, being there on time, and staying the full day. I would suggest that that might be a major part of a thrust for a good vocational education program.

ELIMINATE TRAINING FOR OUTMODED WORK

Senator **Chiles**. Dr. Graham.

Dr. **Graham**. My father-in-law was a vocational education teacher in the Indiana public schools for about 40 some years, and despite my admiration for his work, I have been rather critical in the past about some efforts in this country at vocational education. I would be very enthusiastic about a vocational education bill that moved away from some of the kinds of training for outmoded work that have characterized past efforts.

Senator **Chiles**. We had shop in school when I went there. I went back 10 years later, and it was about the same; 10 years later, it was about the same. It had nothing to do with what the job market was out there, or what the needs of the community were. I think we have been trying to get a local advisory group and get the industry people that are involved in seeking the jobs. I think you are absolutely right. That has been one of the problems that the States have failed to look at their programs in many instances. It just was a part of what you did. You had shop for those kids that were not quite as fast and put them there as a substitute for math or something else.

Dr. **Graham**. I do not think you can substitute for reading and for mathematics anymore. We cannot teach boys auto mechanics and girls home economics and believe that we have done the job. We need something a good deal more imaginative than that and I trust that is what your bill will be.

Chairman **Domenici**. Will the Senator yield?

Senator **Chiles**. Yes.

Chairman **Domenici**. Let me suggest that you take a look at the Chiles-Domenici proposal, because our bill addresses the exact problem that you have raised. We are trying to use our dollars to force an upgrading of the quality of vocational education. Now, we may not have the only way to do it, but that is clearly our goal. We do not just want more of the same type of vocational education. We do not want 26 categories and say you have to have this much here, that much there, which is the way they are going in the committee.

So, from my standpoint, it would be exciting for us to get your view as to whether the way we are moving is appropriate.

On the other hand, let me suggest this mundane idea about shop. I have come full circle on auto mechanics, I think it should be mandatory for boys and girls.

Dr. **Graham**. If it were mandatory for both boys and girls, I think it would be a great investment for all of us in that we would have much more to do with our discretionary dollar than we currently do.

Chairman **Domenici**. You have got it.

Senator **Chiles**. Mr. Chairman, I understand that Senator Exon has to go off to shop class here, and he would like to ask a question or two before he goes.

Chairman **Domenici**. Go ahead, Senator.

PROBLEMS WITH CASH FLOW

Senator **Exon**. Thank you very much.

I have taken shop. I do not know if I passed or not, but at least I was there.

Thank you for your testimony. This is a tremendously important subject. I do have a previous engagement that I must go to in 5 minutes.

So let me be very brief, and I appreciate my colleague yielding.

First, a brief question. In Nebraska, we are having some difficulty right now with the failure of the money to come in, cash flow, if you will, through taxation because essentially of delinquent taxes that we are having some trouble with. Particularly Mr. Odden, and maybe Dr. Krueger also, have you seen any—do you have any firsthand knowledge of that in either of the States or in your New Mexico bailiwick?

Dr. KRUEGER. Although I do not consider myself an authority on the financing in New Mexico, my perception and my reading of the paper and my talking with our legislators, says, yes, indeed. Much of our funding is based on some of our mineral resources and the cash flow is just going down slowly. We have some problems with our funding in education, and our legislature is presently wrestling with that.

They are talking about raising taxes and some people are saying, no, that should not happen. So, yes, we are having some problems but we do not at this point have the solutions either.

EDUCATION OF STATES

Senator EXON. Mr. Odden, I am a firm believer of the education of States and have wrestled with the problem for a long time.

I wonder if you have anything on this, as representative of the education of States?

Dr. ODDEN. Yes; I would make two comments.

My impression is that it tends to be concentrated in farm States, rural States, and that State responses tend to be of a temporary nature because the problem is a temporary problem. States may set up loan funds. Sometimes States modify their State school finance formulas to run on a more current basis, rather than a 1- or 2-year lagged basis, to try to compensate for inability of districts to collect those taxes.

MERIT PAY FOR BEST TEACHERS

Senator EXON. Thank you.

It is a temporary basis if they are able to pay their taxes at a later time but that is a problem we are facing right now.

My last question is—all three of you, briefly, if you could—about merit pay for best teachers.

What is wrong with it and if we could put it into place, what process should be used to select who is the best teacher to keep it out of the internal political system that is feared by many?

Dr. GRAHAM. I have a four-part scheme on the merit pay question.

If I knew what merit pay was, I would have a clear answer; the four elements that I suggest have to do with the restructuring of salaries for teachers.

RAISE BEGINNING SALARIES FOR TEACHERS

First, despite my admiration for Mr. Odden and the views he has expressed, I do think we need to raise the beginning salaries for teachers because they are at rock bottom. We need to raise teachers' salaries because unless we do so people will not make the initial choice to go into this field.

Second, I think we need, after a period of 3 to 5 years of teaching, to select teachers for particular assignments and to pay them differentially for their work. Let us say a teacher is good with curricular issues; instead of teaching five periods a day, he or she might teach three periods a day and work in the area of expertise for the remaining time. A teacher might do this for 5 years and get extra pay for this activity. Similarly, a particularly gifted teacher might spend time with disruptive students, and then be rechosen for another type of specialized tasks at a later point.

WORKING CONDITIONS

The third element is to require all school administrators to teach in the classroom one or two periods a day.

I do not think a teacher can teach 150 students adequately in a single day; it is too much, they cannot do it well. You have got to cut that.

My solution would be to remind us of what has been mentioned earlier today, that administrators were once teachers. If administrators were teaching in the classrooms then I believe they would form a united front with teachers to try to do something about working conditions. In the present dichotomized environment of school systems, this commonality of purpose does not always happen.

NONTRADITIONAL SOURCES OF TEACHERS

Finally, I would advocate nontraditional sources of teachers. At Harvard, for example, we have initiated a program for math and science teachers in which we are recruiting people in their forties, fifties, and early sixties who will make a 5- to 10-year commitment to teaching. These candidates come from industry, and technical fields, take early retirements from some company and teaching for 5 to 10 years.

I am also encouraged that we can recruit young people leaving college, and induce them to teach for, say, 5 years instead of going on immediately to law school, or business school, or some other more lucrative and socially respected field. The average age, for example, for students entering the Harvard Business School is 27. One would expect these students to have significant work experience before enrollment, and we must structure ways to allow teaching to be seen as a valuable public service, even on a short-term basis, prior to entry into other occupations.

Senator EXON. I have to leave.

Would you give the answer, and I will read it in the record?

RESEARCH PROGRAM ON TEACHER PAY

Dr. ODDEN. I would only add three points to the comments Pat made; I do not think I really disagree on the issue of beginning teacher salary pay.

We need a research program on the teacher pay issue. I do not think we know right now whether it is beginning pay, career earning potential, the nature of the work environment, or what the set of compensation and noncompensation issues are, that are deterrents or attractions for people going into the teaching profession.

I think we need a lot of research on that. That is one of the reasons I suggested that the budget be increased for NIE and a research program developed on the recruitment selection, training, and compensation of teachers.

TWELVE-MONTH CONTRACT FOR TEACHERS

Second, I think the issue of a 12-month contract for teachers needs to be raised in this particular context. In many instances, on a monthly basis teachers' salaries may not be that bad, but they only get paid 9 months of the year, even though many work 12 months of the year. So extending the contract for teachers to work, to pay them for the time they work beyond the time when students are in school, as well as during the summer, I think is something that is in order for a professionally oriented career teacher.

FORGIVENESS PROGRAM

And, the third point, maybe to emphasize what you made earlier, Pat, is a loan forgiveness program for teachers for the cost of collegiate and graduate training. A number of States are beginning to institute those kinds of forgiveness programs and that also can be a Federal role. It would constitute a mechanism to help more able people get into a profession which right now does not pay very much.

CAREFULLY RESEARCH MERIT PAY

Dr. KRUEGER. I would just like to—I am sorry Mr. Exon is not here because I think he would have enjoyed just hearing that our staff recently put in their fellow teachers' boxes a copy of a test that they had devised with tongue in cheek, which would help adjudicate merit pay. There were some clever references to Chaucer and to all kinds of things. This came out of the effort on the part of one of our legislators to give tests to teachers and thereby adjust their pay accordingly.

So our teachers responded what I thought was quite humorously. In any case, I would like to say that whatever they do with merit pay, I would like to see it very carefully researched and therefore I support what you say, Mr. Odden, in terms of the NIE, and frankly, in terms of looking very carefully at where it has worked, how it has worked, and what are the spinoffs, because we all know that your organization is skewed very much according to where it places its rewards.

So, wherever we place those merit pay rewards will have a great deal of impact on the school.

Senator **Chiles**. Mr. Chairman, I have one other question. Did you have some?

Chairman **Domenici**. No; that is fine, Senator.

EFFECT OF TAX LIMITATION LAWS ON EDUCATION

Senator **Chiles**. Several States have already passed tax limitation laws and the residents of my State of Florida are soon to be asked to vote on proposition 1. Under that proposition, taxes would be rolled back to their 1981 level. No adjustment would be made for increases in the State's population.

I wonder if you have any views as to how education would fare under such circumstances.

Dr. **Krueger**. You want to pray a little.

Chairman **Domenici**. She said you better pray a little.

Dr. **Odden**. In addition to prayer, my hunch is that a radical kind of proposal like that probably is not going to pass.

The most recent proposal like that was in Ohio. The discussion in opposition to that proposed tax cut, tax rollback focused on the impact on education, and suggested that if the proposed tax rollbacks were approved, there would be substantial cuts for both postsecondary and elementary and secondary education.

I think that given public opinion now, which feels that the quality of schools needs to be improved and that it will cost money to do so, radical tax cut proposals are going to have a very difficult time passing.

On the other hand, I think such proposals reflect a tax level limitation at the State level that there is only so far we can go in increasing taxes to expand the role of the Government.

MEDIA BLITZ

Dr. **Graham**. In addition to both the religious and secular solutions that have been suggested, let me add one that is highly pragmatic. That is, any State facing this situation might want to take advantage of a media blitz concurring what would happen if these kinds of services are cut.

I am particularly struck by the recent Bureau of Census report——

Senator **Chiles**. Which you think would happen or will happen?

Dr. **Graham**. I think that those communities which are currently affluent will see to it that their local schools are continued and continued reasonably well, and that those communities——

Senator **Chiles**. The proposition affects them, too. It affects State and local governments.

Dr. **Graham**. Right, but they have more resources, private resources, to augment their schools through various kinds of donation programs and partnerships with industry—and I am speaking only about the educational effects—than do most schools in lower middle income and low income areas.

What has struck me about the current educational debate is that we are not just talking about children who are doing well in school; we are not talking, as we were in the post-Sputnik area, about training more scientists and technologists to combat the Soviets or the Japanese—whoever we were most worried about at the moment; this time we are really worried about the youngster who is making it through high school but really cannot read.

These are, too often, children from low-income homes that have not had a good school, and these are the groups that would be most seriously affected. A recent Bureau of Census report says that between 1979 and 1982, the number of children under 6 who live in poverty increased from 18 to 24 percent. The primary institution that looks after those children when they get to be about 5 or 6 is the school, and those children are going to be tremendously disadvantagerd, society is going to be tremendously damaged, if they fail to get the school services they need.

And that is my argument for a media blitz.

Senator CHILES. I thank you for your observation.

Chairman DOMENICI. They can vote, though, in Florida.

Senator CHILES. They all have got relatives in Florida.

Chairman DOMENICI. Also, you were talking about your characterization of our strength, wit, and character, and we were both delighted to see that as the meeting went on you displayed both.

Dr. GRAHAM. Thank you.

CERTIFICATION PROCESS

Chairman DOMENICI. Let me ask you about teachers, Dr. Graham.

I was a teacher. I was fortunate enough to get a job back there. There was an abundance of applicants, but I was a gratis baseball coach which gave me a plus. There were eight people applying for every job and they all wanted to teach math.

As we look around in other professions, it seems that traditions last well beyond their need and their effectiveness. We see that in some respects in the area of health care—look how long it took to permit someone other than a full-blown M.D. to take someone's temperature, even out where there were not many doctors.

Now, we have various subprofessions.

You indicated that you were excited about the kind of people looking at teaching, even if it is temporarily, or at the end of their life. It seems to me that the whole process of certifying teachers causes difficulty for that kind of approach because they cannot go through this certification process.

We have scientists in our State that are the best in the world. We probably have more in New Mexico than any State in the Union.

Some of those people are tremendous with kids. I have seen them in a gym giving a lecture and some have volunteered to teach. They just said we have some extra time. They cannot teach in our public schools. They are not qualified. They have not gone through your school of education. They do not have that little piece of paper that says, not only am I a super mathematician and really know it, but I am not a teacher because I did not get a teacher's certificate.

What is happening in that regard in the United States?

EDUCATION COURSES NEEDED FOR CERTIFICATION

Dr. GRAHAM. I think two things are happening in that regard.

I think one is that some legislative bodies, particularly New Jersey, are proposing that people be sent into the classroom if they are qualified in terms of the subject matter, without any education courses at all. I do not favor that.

Chairman **Domenici**. I did not think you would.

Dr. **Graham**. However, I do not favor the other proposal, either, which is, to put teacher education strictly as a graduate-level activity and to require an increasing number of education courses in increasing specificity. This is something which is happening as a result of pressure from a variety of sources, and is being executed in a number of State education departments.

Yesterday, our State education agency came to the Harvard Graduate School of Education to discuss the certification of our new math and science teacher training program. They found us ready for certification but with certain deficiencies, mainly that we do not have as many "competencies in education" courses as they believed the State regulations require.

My sense is that the reason a person needs to take an education course or two, possibly three, for certification, is that it is very difficult to get what the teacher has in his or her head into the head of a recalcitrant or reluctant student.

It is very easy to do that with bright children who are eager to learn, but that constitutes maybe a third of all the schoolchildren in America. How you reach the child who does not care much about money or who is definitively hostile to learning? This is not something that you learn at Los Alamos. There is tremendous skill involved in reaching those kinds of children. There is also a skill involved in reaching the child who is bright and in helping that child become brighter. So I would argue that we do need some education courses—possibly two, three, or four for certification—and these can be taken at the undergraduate or graduate level. This puts me in conflict with a great many other people in the profession in which I am a member.

Let me just conclude by noting that these midcareer scientists who have come to Harvard for this 1-year program—which is partly based at the graduate school of education, partly in the mathematics and physics departments at Harvard University, and substantially based in the schools—have been asked by the press if they would rather have done as the New Jersey proposal suggests, simply going straight from their company into a public school.

To a person, these midcareer professionals have said no, that they really would like some help in figuring out how to translate what they have come to know over the years into a subject matter format that can be made interesting and compelling to a wide range of youngsters.

RELATIONSHIP BETWEEN TEACHING AND JUST WANTING TO TEACH

Chairman **Domenici**. My last question is to you, Dr. Odden.

Is there any research on whether or not there is any relationship between being a good teacher and just wanting to teach?

Dr. **Odden**. Yes, I will respond. We are really far beyond being able to say that good teachers are born. There is a science of teaching. I would refer to the effective teaching research which lays out in substantial detail a series of strategies, activities, and behaviors that effective teachers use. These behaviors and strategies have been discovered by long, painstaking observation of effective teachers in classrooms, that is, teachers that are effective in having their students achieve at higher than expected rates.

Again, these behaviors span the range of planning and organization, and expectations, strategies in organizing and managing the classroom, and pedagogical and teaching strategies.

In short, there is a science of teaching. There have also been a series of controlled experiments in which teachers have been trained in these strategies and behaviors, use them in the classroom, and then with coaching in their use, the students actually end up spending more time on task and achieving a higher rate.

SOCIOLOGY OF TEACHERS

Chairman **Domenici**. This is my last question.

In our system, almost all careers seem to be chosen because people think they can make a good living.

If that is the case, it seems to me we are going to get fewer and fewer teachers, unless some people decide to pursue a teaching career in spite of low teaching salaries.

Can you tell me about that?

Dr. **Odden**. Yes, and I would like Dr. Krueger to talk about this as well.

The research on the sociology of teachers, or what makes teachers happy in their work, or what are effective incentives suggests that being in an effective school is important—having a sense of efficacy, having a sense of working with colleagues on the business of teaching, being able to learn new skills over time, being able in a collegial environment to go to a good teacher or a good administrator and ask for help, being able to say I am having this kind of problem and need assistance. That kind of climate in a school is very, very effective in retaining teachers in the profession, and such a school climate could be created in the South Bronx as well as in a wealthy suburb.

Dr. **Krueger**. May I just respond, because I think you are talking about rewards again, and a certain level of rewards might be something like Maslow's hierarchy of needs as some of you may or may not know; in other words, you reach a certain level which is necessary, and sufficient, and I will not even hesitate to say that level does not necessarily have to be a millionnaire, it is just the level, whatever level that is, that helps that person feel good and sufficient about a style of life that they have, they can send their kids to college, but not necessarily drive the best cars. Although somebody could probably argue with me about that, the research says that once you reach whatever this magic level is, then these other characteristics that Dr. Odden talked about take over.

In other words, you would not necessarily have a happy teacher, an effective teacher, with just a good salary, with just enough books, with just a well airconditioned room. You need these other professional rewards that make that teaching worthwhile. They also need the relationship with their students, whatever their socioeconomic level would be, the feeling of effectiveness and recognition, factors that come from either the school, the way it is set up, or from the principal, or from the feeling that they have done a good job.

Those things take over, the professional rewards take over once that level has been reached. Whatever that is.

Chairman **Domenici**. Dr. Graham.

Dr. **Graham**. I would agree that if you have enough to live on—and that turns out not to be as much as some people might think—working conditions are key. What we find from the people who come back to us after having made a lot of money in industry, is that they feel, and it sounds old fashioned to say it, that they had a debt to pay back to the society that let them be successful. The reason they were able to be successful in industry was because they had a good education. There was a teacher at some point in their experience who made a difference to them, and they would like to do that for the next generation.

Chairman **Domenici**. Thank you all very much.

I have enjoyed hearing your views.

We are going to recess until the next scheduled meeting, and we stand adjourned.

Thank you very much.

[Whereupon, at 12:05 p.m., the committee was adjourned.]

Association of Contract Tribal Schools
Box 155
St. Francis, South Dakota 57572

February 28, 1984

Senator Pete V. Domenici, Chairman
Senate Budget Committee
Room 203, Carroll Arms Annex
301 First Street, N.E.
United States Senate
Washington, D.C. 20510

Dear Senator Domenici:

On behalf of the Association of Contract/Tribal Schools, I am respectfully requesting that the attached testimony regarding the FY '85 Budget be submitted for the Committee record. By way of introduction, the Association of Contract/Tribal Schools speaks out for the interests of those schools operated by Indian tribes on reservations throughout Indian country. Currently there are over 60 such schools.

These schools, although operated totally by the tribe or their designee, are funded through the Bureau of Indian Affairs, Department of the Interior. This funding is authorized through the Snyder Act, an all-encompassing statute directing the Bureau of Indian Affairs to administer programs providing a variety of needs to American Indians, including education. The statute allows the Bureau of Indian Affairs a vast amount of discretionary authority in implementing program.

Currently, the Bureau of Indian Affairs funds both Bureau operated schools and tribally controlled "contract" schools by way of a formula devised by the Bureau as mandated by P.L. 95-561. Funding is provided to the schools based on the amount appropriated each fiscal year. Because 1) the fiscal year does not coincide with the school year (the school year begins before the start of the fiscal year) and, 2) the appropriation bill is not normally passed before the beginning of the fiscal year and even when it is, the actual dollars do not flow through the Bureau's bureaucracy to the schools before late fall, the schools do not have the operating funds by which to begin the school year. They are forced to either borrow money on which they pay interest; use forward funded supplemental program dollars administered by the Department of Education; or a combination of both, to begin the school year. Each year Bureau funded schools begin the school year by operating on a deficit budget.

Senator Pete V. Domenici
February 28, 1984
Page Two

The testimony which is attached attempts to address the issue by requesting that the Budget Committee allow for the forward funding of BIA education beginning in FY '85. As you are aware, almost all of the Department of Education programs with the exception of Impact Aid, are forward funded. This funding approach greatly assists schools in their planning and prevents the kind of cash shortfalls which now occurs on an annual basis. It is also important to note that the authorizing committees of both bodies support forward funding for FY '85 and will recommend such in the March 15 Budget submissions.

Your consideration of my request is greatly appreciated and if the Committee wishes, I could come to Washington to appear before your Committee to give oral testimony expanding on what is stated in the attached written testimony. Please feel free to contact me if the Committee should have any questions. I can be reached at the address on the letter head or at (605) 747-2296. Your interest in our Association's concerns is greatly appreciated.

Sincerely,

Roger Bordeaux, President
Association of Contract/Tribal Schools

RB:jf

Enclosure

cc: Senate Budget Committee Members

Association of Contract Tribal Schools

Testimony
Before
Budget Committee

My name is Roger Bordeaux and I am submitting testimony on behalf of the Association of Contract Tribal Schools. There are over 60 schools in this nation on reservations that are operating their own schools to meet the needs of their local communities. Because of past and existing Federal policy implementation these schools are being severely hampered in the administration of their programs.

As long as there exist a Federal government bureaucracy, problems will occur. We recognize this and to a degree we can live with that reality. The problem however, is with policy which can be changed and which has already been changed in other Federal agencies. Specifically I am talking about the method by which contract schools and "all" Bureau of Indian Affairs schools for that matter -- are funded.

The current method of funding leads to schools not knowing their final allocation of dollars until as late as April of any given school year. This is caused to a large extent because; 1) the appropriation bill is not normally passed until just before or in most cases after, the beginning of the fiscal year, and 2) because the Bureau of Indian Affairs bureaucratic structure prohibits the timely allocation of dollars even after the money is received. This fact of life forces schools to begin their school year in August of each year with operating monies normally obtained on credit. Schools will generally borrow those early dollars from either the tribe or a financial institution. These dollars are used to pay staff and meet other fixed cost of the school. In addition to the fact that the money is borrowed therefore causing an interest payment to be made, other ramifications of this practice include:

a) inability to purchase classroom materials at the beginning of the schools year, and

b) difficulty in meeting short and/or long-term planning goals.

In some instances a school trys to meet some of these needs by using funds which have come into the school from supplemental programs, i.e. Title IV - Indian Education Act, and Chapter I, Department of Education. Both of these programs are forward funded, thus the dollars are there at the start of the school year. The use of supplemental program funds for these kind of activities is contrary to law and regulation, but in some instances there is no other choice.

There are two specific things that can be done to expedite funds to the schools which would improve the delivery of education service to elementary and secondary students:

1) The Bureau of Indian Affairs could administratively change the fiscal year for BIA education to July 1 through June 30, and

2) Forward fund BIA education beginning in FY 1985.

If it is not possible to forward fund all education at least the contract tribal school portion could be done in FY 1985. The first of these actions just stated, can be accomplished administratively by the Bureau. The second act can also be done administratively by the Bureau as the legislative authorizing authority is currently present in the Snyder Act, 25 USC 13.

Department of Education programs are forward funded and have been so for some time with the exception of P.L. 81-874, Impact Aid. The positive features are obvious, i.e. timely receipt of funds, proper financial and program planning, uninterrupted educational program and cost efficient financial management in that there would be no need for a school to borrow from the tribe or a financial institution to begin the school year.

ACTS would like to recommend to the Committee that BIA education be forward funded beginning with the FY '85 budget. The Budget authority we are requesting for FY '85 would be $168,016,000, the amount proposed for FY '85 in the Administration's budget submission. This figure would cover the basic formula by which the schools are funded, plus funds to meet the cost of student transportation which is a large part of each schools budget. Budget authority for FY '86 would be $184,818,000 which factors in a 10% increase. This request is both fair and realistic and will greatly assist schools to realize an actual savings because it would negate the need to borrow funds to open each school year, plus it would insure better financial planning.

We do not feel this request is out-of-line even though we are in the midst of a period when all of us are trying to stretch the dollar further. We are not asking for additional dollars. We are simply requesting that the Congress establish a system within the Bureau of Indian Affairs which will bring those schools (which they have the responsibility for funding) up to par with the Department of Education funded programs. We are only asking for equity. Equity which makes good sound financial management sense.

Mr. Chairman and Members of the Committee, ACTS will be glad to provide the Committee with any additional information they may need. All you have to do is ask.

One final point. Our request for forward funding is supported by both of the authorizing Committees having jurisdiction over our programs. The idea has also been presented to the Appropriation Committee's of both chambers where their acceptance of the idea has been positive. We must however, gain your acceptance and support.

nea

LEGISLATIVE INFORMATION

STATEMENT OF
THE NATIONAL EDUCATION ASSOCIATION
ON THE FISCAL 1985 EDUCATION BUDGET
TO
THE COMMITTEE ON THE BUDGET
OF
THE SENATE OF THE UNITED STATES
MARCH 16, 1984

MARY HATWOOD FUTRELL, President • KEITH GEIGER, Vice President • ROXANNE E. BRADSHAW, Secretary-Treasurer
DON CAMERON, Executive Director (202) 822-7300

Statement of
THE NATIONAL EDUCATION ASSOCIATION
on the
FISCAL 1985 EDUCATION BUDGET
March 16, 1984

Mr. Chairman and Members of the Committee:

The 1.7 million members of the National Education Association are the teachers, faculty, and education support personnel in the public schools and institutions of higher education in every state of the union. The men and women who belong to this organization continue to be deeply concerned about the quality of education provided to students across the country and the continued budgetary insensitivity of the Reagan Administration in diminishing the support by the federal partner to this enterprise. It is ironic that in a period of our history when excellence in education is universally accepted as a top national priority, the ability of our educational system to meet the costs of inflation, much less expand its services, has eroded for lack of financial resources.

While the Administration talks about excellence, it continues to press for cuts in education funding and promote huge and unwarranted increases in defense spending. It has succeeded in reducing the federal share of elementary and secondary education costs from eight percent in Fiscal 1981 to 6.4 percent in Fiscal 1984.

We appeal to the Members of this Committee to address this short-sighted budget in education which lessens our ability to promote individual opportunity, economic growth, and productivity, and fails to invest in our youth in order to recapture this nation's strength in a competitive world market. The American people are demanding improved education offerings, and the Congress is responding with ever-increasing interest in programs to assist local schools in strengthening instruction in such critical areas as math, science, and computer technology. So great is this interest that 27 Members of the Senate and 230 Members--a clear majority--of the House of Representatives have cosponsored the American Defense Education Act--a forward-looking, broad-based approach to fostering excellence in our educational system.

The education proposals we bring you today would restore the level of services that existed in 1980, taking into account the real cuts that have resulted from reduced appropriations and the impact of inflation on the school dollar. If these proposals are accepted, education would show a zero net growth for the period, but would be held harmless for inflation. Services that have been curtailed or abandoned could be restored, and the erosion of federal support would be reversed.

Education in the federal budget

Education is a big industry by any measure. In the 1983-84 school year, the states are spending an estimated $115 billion on elementary and secondary education, and higher education expenditures will exceed $70 billion. Education touches the lives of 40 million Americans aged 5 to 17, and enrollments in our colleges and universities total 12.4 million, according to studies by the National Center for Education Statistics. And yet, less than two cents of the federal budget dollar is expended on direct support of education. That support has been traditionally targeted to specific populations, but it is far from sufficient to meet the needs of those who should benefit. As the Secretary of Education has noted in his support of the effect of education for the disadvantaged, the federal role in promoting equity is clearly a critical step towards excellence for all students and not simply an elite few. The nation loses a critical portion of its leadership potential when large numbers of its citizens are denied full access to the knowledge and skill training that could be provided.

In this context, NEA calls upon Congress to recognize that national security is not only weapons or military might. The Association's Representative Assembly puts it this way in defining its top legislative priorities:

"The security and well-being of our nation are enhanced by the pursuit of peace. The most effective guarantees of peace are a solid economy, a well-educated populace, and a stable world economy. All efforts which detract from these guarantees shall be actively opposed. The goal of national security through peace can be achieved only by the education of a citizenry to compete and succeed in a complex and interdependent world. Therefore the proposed disproportionate allocation of funds increasing the national defense budget and decreasing federal funds for education must be reversed."

The National Education Association joins such organizations as the Committee for National Security, SANE, and Citizens Against Nuclear War in urging this Committee to impose a stringent ceiling on military expenditures. According to estimates by former U.S. Comptroller Elmer Staats, a minimum of $30 billion in the annual defense budget is lost through waste and fraud. We recommend that these savings be made in the defense budget, that unnecessary and destabilizing weapons systems be eliminated, and that any increase in the defense budget be limited to annual CPI over the remaining base amount. Such a ceiling would allow attention to the nation's need to have a strong, educated, healthy, employed, and productive citizenry as the basis of our security in the world.

NEA is deeply concerned about the Reagan policies of big defense, big tax cuts, and big deficits. Therefore, in addition to our support of a new definition of national security, NEA recommends that the indexing of the personal income tax and excessive tax breaks for businesses and corporations be repealed. We must restore the capability of the federal government to support critical domestic programs. It is hardly surprising that the Congressional Budget Office looks to a deficit of nearly $200 billion in the year ahead when the tax legislation of 1981 reduced the federal revenue base by $750 billion. While it may be argued that tax cuts have been responsible in part for the current recovery (despite supply-side theory) the recession remains very real and very threatening for those who are undereducated, unemployed, or underemployed. School children do not attend school in a vacuum. Programs for education and basic human needs must be restored to increase the national investment in human capital, our most precious and productive resource.

The Reagan Proposals for Education

With great fanfare, the Administration's education budget proposal was unveiled at a Fiscal 1985 level of $15.4 billion--essentially the same amount Congress has appropriated for Fiscal 1984. Given any increase in CPI, such a request is negative. In terms of current services, the budget request is fully $5.7 billion below the amount needed to restore prevailing 1980 levels. The chart below demonstrates the impact of inflation on federally funded education programs.

SELECTED FEDERAL EDUCATION PROGRAMS--BUDGET, APPROPRIATIONS, AND INFLATION

PROGRAM	Appropriation FY80 (School Year '80-81	Budget Resolution FY1984	Reagan Budget Request FY1985	FY80-FY85 Adjusted for Inflation [1]	Difference Reagan Budget v. Inflation Adjustment
Education Department	14,339,100,000	16,100,000,000	15,484,949,000	21,109,080,000[5]	-5,624,131,000
ESEA Title I (ECIA Chapter 1 basic gr.)	3,215,600,000	3,830,000,000	3,480,000,000	4,714,279,000	-1,234,279,000
State Block Grant (ECIA Chapter 2)	731,896,000	606,000,000	728,879,000	1,073,007,000	- 344,128,000
Impact Aid (Not forward funded)	825,000,000	505,000,000	506,630,000	1,209,503,000	- 702,873,000
Education for the Handicapped	1,049,000,000	1,226,000,000	1,214,445,000	1,537,902,000	- 323,457,000
Vocational Education	779,241,000	825,000,000	731,314,000	1,142,418,000	- 411,104,000
Adult Education	122,600,000	112,000,000	100,000,000	179,731,600	- 79,731,000
Bilingual Education	191,463,000	140,000,000	139,245,000	280,697,000	- 141,452,000
Math/Science ADEA		325,000,000	50,000,000	400,000,000[2] 2,000,000,000[3]	
GSL	1,609,344,000	2,389,000,000	2,840,677,000	3,141,800,000[4]	- 301,123,000
Pell Grants	2,441,328,000	3,009,000,000	2,800,000,000	3,578,986,800	- 778,986,000
SEOG	370,000,000		-0-	542.420.000	- 542,420,000
Work Study	550,000,000	550,000,000	850,000,000	765,550,000	+ 84,450,000

Footnotes 1. Adjusted for Urban CPI 1980-1985 (Oct.1 through Sept. 30) 2. $400,000,000 House-passed Math/Science initiative 3. $2.0 billion ADEA initiative 4. CBO preliminary estimate of current policy level

5. NEA Target Figure for Education FY '85

1980 Appropriation plus inflation:	$ 21.1 billion
House-passed Math/Science	.4 billion
ADEA initiative	2.0 billion
TOTAL........................	$ 23.5 billion

The tables attached to this statement display vividly the discrepancy between the Reagan request and the real impact of inflation on the education budget over a range of programs including the principal elementary and secondary and higher education components. There is a cosmetic increase of some $20 million over the actual Fiscal 1984 appropriations. This sum--not even enough to be called a token--is primarily in the state block grant and college work-study programs. Where did the money come from for this cosmetic increase? Everything else is cut, including education of the disadvantaged; impact aid; bilingual education; education of the handicapped; vocational education; Pell grants; the TRIO programs; higher education construction; teacher loan cancellations; and graduate support.

Worse still, the Reagan budgets again and again and again this year have called for the elimination of programs that have proven their value in expanding educational opportunity. Included in this list: Women's Educational Equity; Follow Through; Civil Rights Title IV desegregation assistance; Ellender fellowships; asbestos control; vocational state planning and advisory councils; the National Institute of Handicapped Research and the National Council on the Handicapped; Supplementary Opportunity Grants; State Student Incentive Grants; special endowments; law and education programs; and international education.

In addition to cuts and elimination of programs, the Administration requests significant and unwarranted changes in well-established programs of great importance.

Vocational Block Grants

Under the Administration's proposal, the current Vocational Education Act would be replaced by a severely curtailed state block grant program. Although the Administration has finally backed off its previous attempt to consolidate the Adult Education Act within such a block grant and to slash the funding of both programs to a mere $500 million, its approach would undermine almost seventy years of federal commitment to vocational education. The House of Representatives has already rejected the Administration's plan, passing instead legislation--supported by NEA--to extend and expand the existing Vocational Education Act.

Vouchers

The Administration again proposes to substitute a successful program for equity with a right-wing rhetoric program--vouchers in Chapter 1 programs for the disadvantaged. Voucher plans in the past have typically been designed to give parents an option as to which school their children will attend. There is an apparent choice between public and private schools, but the voucher program is doomed to failure because it makes it impossible for both the public and private schools to develop operating budgets and long-range programs. This scheme is opposed not only by NEA and the public school community; it is opposed by two major private school groups, the U.S. Catholic Conference and the Council of Private Education.

Tuition Tax Credits

Despite overwhelming rejection by the Senate of its 1983 proposal, the Administration is again calling for enactment of tuition tax credits. NEA is unalterably opposed to such legislation as unsound fiscal policy, unsound educational policy, and unsound public policy. If the budget is insufficient to maintain inflation-proof funding with zero growth for needed federal education programs for the 90 percent of students who attend public school, how can the President ask for further depletion of the U.S. Treasury for the ten percent of students who attend private school?

We believe the proposal is unsound educationally because it would create a system in which public schools would become the dumping ground for the disadvantaged. And we are convinced that tuition tax credits, as a back-door federal subsidy scheme for church-related schools, would violate the First Amendment doctrine of the separation of church and state. We believe that the $2.5 billion over the next three years should be made available for public education programs immediately.

American Defense Education Act

As a response to urgent needs of the '80s, NEA calls for passage and full funding of the American Defense Education Act (S 553, HR 881). This measure goes beyond improvements in math and science instruction, offering local school districts substantial federal assistance for locally determined options for excellence and for meeting emerging needs in computer technology training, foreign languages, and guidance and counseling. The higher education community would also be involved in planning and implementing teacher training and retraining programs, as well as a variety of research and demonstration programs to give wide visibility to forward-looking and innovative practices. We ask this Committee to establish a budget target of $2 billion for the first year of the ADEA program. Attached to this statement is a summary of the major provisions of the Act.

Math/Science Proposals

The Administration has repeated its call for $50 million to improve math and science instruction. Such a request is a mere token. The House has already passed a $425 million bill, HR 1310, and the Senate is considering a similar measure, S 1285, to provide meaningful support to efforts to upgrade teacher skills and other improvements. NEA supports these bills.

Comment on Specific Budget Proposals

Following is an analysis of the Administration's requests for individual programs administered by the Department of Education. Figures used for comparison in this section are based on Fiscal 1980 actual appropriations adjusted for inflation. State by state analyses in the Appendix reflect actual obligations, as reported by the Education Department.

1. Elementary and Secondary Education

Education of the Disadvantaged

The budget proposes $3.48 billion, $7.5 million less than the Fiscal 1984 appropriation. Nearly 900,000 fewer children are being served now than in 1981, and the current level of funding is sufficient to serve only 45 percent of the nation's impoverished school-age youth. National evaluations continue to praise this program as one of the major reasons for the increase in achievement scores of poor and minority youngsters. Reducing the real dollar funding and services for children is a major breach of faith with local school systems that have worked for many years to provide good and useful programs to improve opportunities for impoverished children.

FY80 Funding:	$3.2 billion
FY85 Budget request:	$3.48 billion
Needed to counter inflation:	$4.7 billion

Chapter 2 Block Grant

The budget proposes a much-publicized increase of $201 million in block grants, which would nearly restore the amount appropriated in FY 1980 for the separate programs merged by the 1981 Reconciliation Act. The purposes of these separate programs have not to date been implemented by the states. The House Government Operations Subcommittee on Intergovernmental Relations has heard detailed testimony that the money is being used to buy equipment and supplies--sometimes frivolously--rather than to maintain programs and staffing. We seriously question the wisdom of funding that is handed out from Washington which is for no purpose at all.

The loss of specific programs such as the Emergency School Aid program, which provided urgently needed funding to accomplish desegregation of public schools, has prompted the House to attempt to reenact the program, in HR 2207. At the present time it is being held hostage in a controversy over adding it as an amendment to S 1285, the Senate math/science bill. Such controversy does a serious disservice to the nation's minority school children in school districts which were involved in community efforts to desegregate schools. .

FY80 comparable programs: $731 million
FY85 Budget request: $729 million
Needed to counter inflation: $1.07 billion (including desegregation)

Impact Aid

The funding request for impact aid in Fiscal 1985 is $506.6 million, $78 million less than the amount appropriated for Fiscal 1984. The Administration calls for funding "Super A" districts at full entitlement and other "A" pupils at gradually declining levels. The budget also proposes the complete elimination of military and civilian "B" payments, including payments for the presence of large numbers of low-rent housing children.

This program has been of significant help to school systems which enroll federally connected children. It is an obligation that the federal government pays in lieu of taxes, and it is grossly unfair to place the full burden of school enrollments caused by federal government activities on the backs of local school district taxpayers.

FY80 funding: $825 million
FY85 Budget request: $506.6 million
Needed to counter inflation: $1.2 billion

Education of the Handicapped

The Fiscal 1985 budget proposes to freeze the program's formula grants at Fiscal 1984 levels. This freeze would further erode the federal government's commitment to fund the excess costs of educating the handicapped. The federal share of excess costs has dropped from 12 percent in 1980 to just eight percent, although P.L. 94-142 calls for a 40 percent funding level. This is another kind of deficit--the deficit between mandated services and funding to follow the requirements.

Over four million children and youth aged 3 to 21 are receiving special education and related services. The costs of providing a free, appropriate education for these young people is a major burden on local schools which are struggling to maintain regular programs as well.

FY80 funding:	$1.5 billion
FY85 Budget request:	$1.2 billion
Needed to counter inflation:	$1.5 billion

Vocational Education

The Administration proposes new legislation in Fiscal 1984 for vocational education, under a block grant. The Congress has disavowed this concept and the House has passed different legislation with admirable goals. Now it is critical to provide other than meager funding for a program which has provided indispensable training in tune with the ever-changing world of work for more than half a century.

FY80 funding:	$779 million
FY85 Budget request:	$731 million

Needed to counter inflation: $1.14 billion

Adult Education

The Administration proposes only $100 million for this program, which provides educational services for nearly three million adults. As Administration leaders have noted in speech after speech, adults who have not finished high school or its equivalent number more than 61 million, and the number of adults who lack the basic skills to cope with the everyday demands of this technological society is more than 27 million. Adult illiteracy is a critical problem, yet the Administration requests an incredible $1 per adult in need of educational services.

FY80 funding:	$122.6 million
FY85 Budget request:	$100 million
Needed to counter inflation:	$179.7 million

Bilingual Education

In Fiscal 1980, bilingual education received $170.6 million, and to reach the same number of non-English speaking students in Fiscal 1985, Congress should appropriate $250 million. But just staying even is actually falling further and further behind, because of striking increases projected in the growth of Hispanic and other non-English speaking populations. Nearly 30 to 40 percent of the labor force growth over the next decade will be Hispanic in origin.

FY80 funding:	$191.4 million
FY85 Budget request:	$139.2 million
Needed to counter inflation:	$280.6 million

2. Higher Education

Pell Grants

Under the Administration's proposals, Pell Grants would be reshaped into a "self-help" program, under which students would be expected to contribute a minimum of $500 or 40 percent of college costs through work or loans before receiving a grant. The maximum grant would be raised from $1900 to $3000, but enactment of this plan would mean 290,000 fewer awards than are currently available, and 80 percent of the requested funds would go to students with family income under $12,000. This plan, which NEA opposes, would wreak havoc with educational opportunity for millions of lower- and middle-income students, and was disavowed by Congress last year.

FY80 Funding: $2.44 billion
FY85 Budget request: $2.8 billion
Needed to counter inflation: $3.57 billion

Supplementary Opportunity Grants

The Administration's attempt to eliminate SEOG's is shocking. This program, funded at $375 million in Fiscal 1984, provided assistance to 655,000 students. The program is especially critical for students with higher costs of attendance such as those attending independent institutions or public institutions outside their state.

FY80 Funding: $370 million
FY85 Budget request: $0
Needed to counter inflation: $542.4 million

College Work Study

The President's budget would increase the funding of this program by $295 million in Fiscal 1985. We concur with this request, which exceeds the inflation amount and--in a highly unusual step for this Administration--proposes some growth.

FY80 Funding:	$550 million
FY85 Budget request:	$850 million
Needed to counter inflation:	$765.5 million

Conclusion

To summarize our comments on the Fiscal 1985 education budget, NEA believes that the Federal Government must fully participate in the drive for excellence. This means substantially more federal financial assistance than is currently available or is proposed by the Reagan Administration. NEA believes that the down payment on this commitment must be the funding of programs at levels equivalent to those of Fiscal 1980. Such funding only provides the same services to the same number of children that existed in the past. It falls short of the real growth in the population and the exacerbation of needs resulting from a period of recession and high unemployment. It does not allow for improvements, for excellence. The foundation of our liberty is opportunity to excel, and our people look to education to realize that opportunity. State and local communities are unable to shoulder the entire burden of improving school offerings when the federal government fails to meet its long-standing commitments. In the local-state-federal partnership, one partner is failing to perform.

Mr. Chairman, the highest-yielding, lowest-risk investment in America is not in stocks, bonds, or Treasury Department bills. It is in the quantity and quality of the education provided to the children of this nation. The National Education Association is committed to working with you in fashioning a federal budget that builds upon this essential fact and that provides the necessary resources for education and for our future.

Thank you.

APPENDIX

The charts on the following pages show actual and estimated funding of major education programs funded by the Department of Education, by state. Figures are based on actual allocations to states, including aappropriated funds carried over from a prior year. Administrative setasides have been factored out of the basic allocations to reflect dollar amounts actually released to the states.

The charts compare actual allocations in Fiscal 1980 with the amounts requested in the Reagan Administration's Fiscal 1985 request, and Fiscal 1985 adjusted for inflation. Also shown is the difference between the Fiscal 1985 adjustment and the Reagan request.

Charts prepared for the National Education Association by Fiscal Planning Services, Washington, DC.

FY85: Reagan Budget vs. Inflation Adjustment

Alabama State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	73763	66495	85667	-19172
State Block Grant (ECIA Chapter 2)	5184	11831	11831	0
Impact Aid	8793	2268	15804	-13536
Education for the Handicapped	14914	21196	23105	-1909
Vocational Education	28412	14991	19692	-4701
Adult Education	2958	2039	2989	-950
Bilingual Education	0	0	0	0
Pell Grants	51146	57293	71598	-14305
SEOG	5837	0	8511	-8511
Work Study	11332	12923	12208	715
** TOTAL **	202339	189036	251405	-62369

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FFY85: Reagan Budget vs. Inflation Adjustment

Alaska State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter 1	7190	8019	10516	-2497
State Block Grant (ECIA Chapter 2)	1265	3392	3392	0
Impact Aid	55335	50204	64483	-14279
Education for the Handicapped	1542	2428	2646	-218
Vocational Education	1427	978	1576	-598
Adult Education	480	246	361	-115
Bilingual Education	1057	1085	2193	-1108
Pell Grants	1317	1516	1894	-378
SEOG	518	0	503	-503
Work Study	668	1187	1121	66
** TOTAL **	70799	69055	88685	-19630

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FFY85: Reagan Budget vs. Inflation Adjustment

Arizona State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	33067	41133	54666	-13533
State Block Grant (ECIA Chapter 2)	5424	8032	8032	0
Impact Aid	34870	40275	55632	-15357
Education for the Handicapped	9574	13362	14565	-1203
Vocational Education	16036	9173	12255	-3082
Adult Education	1258	1075	1576	-501
Bilingual Education	5125	3660	7397	-3737
Pell Grants	27200	38487	48096	-9609
SEOG	5007	0	7268	-7268
Work Study	5569	12035	11369	666
** TOTAL **	143130	167232	220856	-53624

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FFY85: Reagan Budget vs. Inflation Adjustment

Arkansas State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	48060	41941	54508	-12567
State Block Grant (ECIA Chapter 2)	3976	6770	6770	0
Impact Aid	3707	2719	4551	-1832
Education for the Handicapped	8033	12091	13180	-1089
Vocational Education	15810	8519	11063	-2544
Adult Education	1808	1296	1900	-604
Bilingual Education	0	246	497	-251
Pell Grants	24733	29233	36531	-7298
SEOG	2472	0	3570	-3570
Work Study	5253	5820	5498	322
** TOTAL **	113852	108635	138068	-29433

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FY85: Reagan Budget vs. Inflation Adjustment

California State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ESEA Chapter I	322832	359611	487763	-128152
State Block Grant (ECIA Chapter 2)	60486	64484	64486	-2
Impact Aid	93765	57519	102250	-44731
Education for the Handicapped	73124	95906	104544	-8638
Vocational Education	57236	65794	85096	-19302
Adult Education	11060	8187	12003	-3816
Bilingual Education	44033	24831	50190	-25359
Pell Grants	163848	207587	259417	-51830
SEOG	36333	0	53649	-53649
Work Study	48175	102993	97297	5696
** TOTAL **	910892	986912	1316695	-329783

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FFY85: Reagan Budget vs. Inflation Adjustment

Colorado State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ESEA Chapter I	32252	34919	46211	-11292
State Block Grant (ECIA Chapter 2)	4249	8200	8200	0
Impact Aid	6566	9527	20372	-10845
Education for the Handicapped	9471	10936	11920	-984
Vocational Education	9770	8901	11575	-2674
Adult Education	1358	967	1418	-451
Bilingual Education	3296	1946	3933	-1987
Pell Grants	25734	29700	37115	-7415
SEOG	4675	0	6578	-6578
Work Study	6371	11759	11108	651
** TOTAL **	103742	116855	158430	-41575

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FFY85: Reagan Budget vs. Inflation Adjustment

Connecticut State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ESEA Chapter I	30588	34919	48466	-13547
State Block Grant (ECIA Chapter 2)	5805	8593	8593	0
Impact Aid	5511	4934	10263	-5329
Education for the Handicapped	12970	16740	18247	-1507
Vocational Education	7827	7697	10501	-2804
Adult Education	2102	1289	1890	-601
Bilingual Education	2339	1524	3080	-1556
Pell Grants	19305	20117	25139	-5022
SEOG	5081	0	7491	-7491
Work Study	6564	10097	9538	559
** TOTAL **	98092	105910	143208	-37298

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FFY85: Reagan Budget vs. Inflation Adjustment

Delaware State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ESEA Chapter I	9921	12205	16205	-4000
State Block Grant (ECIA Chapter 2)	6043	3392	3392	0
Impact Aid	650	0	731	-731
Education for the Handicapped	2449	2999	3269	-270
Vocational Education	1751	1829	2602	-773
Adult Education	564	372	545	-173
Bilingual Education	276	0	0	0
Pell Grants	5208	5119	6397	-1278
SEOG	1112	0	1279	-1279
Work Study	1408	2346	2216	130
** TOTAL **	29382	28262	36636	-8374

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FFY85: Reagan Budget vs. Inflation Adjustment

District of Columbia Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ESEA Chapter I	18318	17201	22807	-5606
State Block Grant (ECIA Chapter 2)	9255	3392	3392	0
Impact Aid	4237	1395	10886	-9491
Education for the Handicapped	1398	725	790	-65
Vocational Education	3689	1570	2448	-878
Adult Education	717	415	608	-193
Bilingual Education	2809	1227	2480	-1253
Pell Grants	14161	11702	14623	-2921
SEOG	2866	0	3951	-3951
Work Study	4363	5623	5312	311
** TOTAL **	61813	43250	67297	-24047

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FFY85: Reagan Budget vs. Inflation Adjustment

Florida State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	108837	131869	176210	-44349
State Block Grant (ECIA Chapter 2)	12995	25078	25079	-1
Impact Aid	21129	13416	33811	-20395
Education for the Handicapped	26650	39147	42672	-3525
Vocational Education	28026	30859	38860	-8001
Adult Education	4932	4173	6118	-1945
Bilingual Education	5670	3622	7321	-3699
Pell Grants	86493	101528	126877	-25349
SEOG	10650	0	15313	-15313
Work Study	16479	27607	26080	1527
** TOTAL **	321861	377299	498349	-121050

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FY85: Reagan Budget vs. Inflation Adjustment

Georgia State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	81845	86033	111852	-25819
State Block Grant (ECIA Chapter 2)	11171	16948	16948	0
Impact Aid	11952	3815	23414	-19599
Education for the Handicapped	20974	29186	31814	-2628
Vocational Education	17492	20198	27229	-7031
Adult Education	3835	2780	4105	-1325
Bilingual Education	101	346	699	-353
Pell Grants	46153	51088	63843	-12755
SEOG	5538	0	8609	-8609
Work Study	11457	14953	14126	827
** TOTAL **	210518	225347	302639	-77292

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FY85: Reagan Budget vs. Inflation Adjustment

Hawaii State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	13571	10647	13760	-3113
State Block Grant (ECIA Chapter 2)	2756	3392	3392	0
Impact Aid	15934	14502	20150	-5648
Education for the Handicapped	2190	3211	3500	-289
Vocational Education	3098	2871	3998	-1127
Adult Education	619	449	658	-209
Bilingual Education	2091	881	1780	-899
Pell Grants	4595	5310	6635	-1325
SEOG	1111	0	1797	-1797
Work Study	1790	3503	3309	194
** TOTAL **	47755	44766	58979	-14213

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FFY85: Reagan Budget vs. Inflation Adjustment

Idaho State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	8747	12355	16282	-3927
State Block Grant (ECIA Chapter 2)	1585	3392	3392	0
Impact Aid	4733	4094	7859	-3765
Education for the Handicapped	3719	4556	4966	-410
Vocational Education	3536	3281	4522	-1241
Adult Education	633	448	657	-209
Bilingual Education	293	182	367	-185
Pell Grants	8294	11177	13967	-2790
SEOG	1388	0	1707	-1707
Work Study	1781	3096	2924	172
** TOTAL **	34709	42581	56643	-14062

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FFY85: Reagan Budget vs. Inflation Adjustment

Illinois State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	141859	180418	237166	-56748
State Block Grant (ECIA Chapter 2)	17540	32480	32481	-1
Impact Aid	14171	9665	18903	-9238
Education for the Handicapped	48464	60338	65772	-5434
Vocational Education	61680	32004	42686	-10682
Adult Education	10020	4666	6842	-2176
Bilingual Education	4167	3388	6848	-3460
Pell Grants	99967	123365	154167	-30802
SEOG	15607	0	23589	-23589
Work Study	21324	40971	38705	2266
** TOTAL **	434799	487295	627159	-139864

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FFY85: Reagan Budget vs. Inflation Adjustment

Indiana State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	40318	48851	63128	-14277
State Block Grant (ECIA Chapter 2)	10466	16233	16233	0
Impact Aid	3144	1816	3720	-1904
Education for the Handicapped	19813	24703	26927	-2224
Vocational Education	16505	18499	24940	-6441
Adult Education	3587	2307	3382	-1075
Bilingual Education	661	989	1999	-1010
Pell Grants	48509	63064	78810	-15746
SEOG	7056	0	11087	-11087
Work Study	10272	18214	17206	1008
** TOTAL **	160331	194676	247432	-52756

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FFY85: Reagan Budget vs. Inflation Adjustment

Iowa State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	26353	26784	33647	-6863
State Block Grant (ECIA Chapter 2)	3067	8187	8187	0
Impact Aid	714	584	918	-334
Education for the Handicapped	12412	14946	16292	-1346
Vocational Education	18775	8884	12086	-3202
Adult Education	1855	1151	1688	-537
Bilingual Education	854	564	1139	-575
Pell Grants	30572	42802	53508	-10706
SEOG	4987	0	7568	-7568
Work Study	7132	11441	10808	633
** TOTAL **	106721	115423	145921	-30498

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FFY85: Reagan Budget vs. Inflation Adjustment

Kansas State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	22626	21948	43556	-21608
State Block Grant (ECIA Chapter 2)	2827	6406	6406	0
Impact Aid	8500	5083	8830	-3747
Education for the Handicapped	7898	11305	12323	-1018
Vocational Education	15027	6803	9241	-2438
Adult Education	1504	927	1359	-432
Bilingual Education	171	73	147	-74
Pell Grants	25339	33398	41736	-8338
SEOG	3691	0	5345	-5345
Work Study	5417	9252	8740	512
** TOTAL **	93000	95195	137683	-42488

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FFY85: Reagan Budget vs. Inflation Adjustment

Kentucky State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	61779	58849	202793	-143944
State Block Grant (ECIA Chapter 2)	5139	10878	10878	0
Impact Aid	3147	541	4055	-3514
Education for the Handicapped	13210	18609	20285	-1676
Vocational Education	12009	18629	17288	1341
Adult Education	2888	2047	3001	-954
Bilingual Education	6	96	194	-98
Pell Grants	38554	48312	60374	-12062
SEOG	4201	0	5756	-5756
Work Study	8194	10395	9820	575
** TOTAL **	149127	168356	334444	-166088

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FFY85: Reagan Budget vs. Inflation Adjustment

Louisiana State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	90532	81844	106436	-24592
State Block Grant (ECIA Chapter 2)	9520	13429	13429	0
Impact Aid	6103	3774	8100	-4326
Education for the Handicapped	19364	21543	23483	-1940
Vocational Education	30557	14847	20286	-5439
Adult Education	2957	2085	3057	-972
Bilingual Education	2600	1400	2829	-1429
Pell Grants	43434	49932	62399	-12467
SEOG	4276	0	6475	-6475
Work Study	9917	12936	12220	716
** TOTAL **	219356	201790	258714	-56924

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FY85: Reagan Budget vs. Inflation Adjustment

Maine State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	14080	15553	20901	-5348
State Block Grant (ECIA Chapter 2)	1726	3392	3392	0
Impact Aid	3139	3154	4836	-1682
Education for the Handicapped	5006	6696	7299	-603
Vocational Education	8229	4162	5680	-1518
Adult Education	859	572	839	-267
Bilingual Education	292	504	1018	-514
Pell Grants	13773	14249	17806	-3557
SEOG	5118	0	7547	-7547
Work Study	5419	6159	5818	341
** TOTAL **	57641	54441	75136	-20695

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FFY85: Reagan Budget vs. Inflation Adjustment

Maryland State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	52275	56223	73929	-17706
State Block Grant (ECIA Chapter 2)	6978	12042	12042	0
Impact Aid	20419	11401	26834	-15433
Education for the Handicapped	18633	23509	25626	-2117
Vocational Education	13512	12515	16626	-4111
Adult Education	2777	1801	2641	-840
Bilingual Education	410	482	974	-492
Pell Grants	35093	36323	45392	-9069
SEOG	5507	0	8446	-8446
Work Study	8551	13927	13156	771
** TOTAL **	164235	168223	225666	-57443

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FFY85: Reagan Budget vs. Inflation Adjustment

Massachusetts State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	68262	86085	114968	-28883
State Block Grant (ECIA Chapter 2)	11282	15504	15504	0
Impact Aid	8813	2483	9006	-6523
Education for the Handicapped	27980	32963	35931	-2968
Vocational Education	16771	17045	22833	-5788
Adult Education	3563	2114	3099	-985
Bilingual Education	4374	3803	7686	-3883
Pell Grants	75890	75248	94036	-18788
SEOG	19844	0	29769	-29769
Work Study	29398	32060	30287	1773
** TOTAL **	266177	267305	363119	-95814

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FFY85: Reagan Budget vs. Inflation Adjustment

Michigan State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	132044	129974	169988	-40014
State Block Grant (ECIA Chapter 2)	18424	27700	27701	-1
Impact Aid	6616	5793	9341	-3548
Education for the Handicapped	32050	39223	42755	-3532
Vocational Education	56305	28990	38922	-9932
Adult Education	5885	3635	5329	-1694
Bilingual Education	4326	6558	13255	-6697
Pell Grants	91212	113323	141617	-28294
SEOG	13910	0	19795	-19795
Work Study	17704	32965	31142	1823
** TOTAL **	378476	388161	499845	-111684

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FFY85: Reagan Budget vs. Inflation Adjustment

Minnesota State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	41801	40679	51434	-10755
State Block Grant (ECIA Chapter 2)	5041	11677	11677	0
Impact Aid	4404	3981	6204	-2223
Education for the Handicapped	17380	20884	22764	-1880
Vocational Education	12568	12433	17388	-4955
Adult Education	2396	1478	2167	-689
Bilingual Education	934	1237	2500	-1263
Pell Grants	47072	58969	73692	-14723
SEOG	9403	0	14471	-14471
Work Study	12401	15546	14686	860
** TOTAL **	153408	166884	216983	-50099

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FY85: Reagan Budget vs. Inflation Adjustment

Mississippi State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	73433	62136	78892	-16756
State Block Grant (ECIA Chapter 2)	6460	8201	8201	0
Impact Aid	4397	2761	7396	-4635
Education for the Handicapped	8274	12945	14110	-1165
Vocational Education	8734	10058	13073	-3015
Adult Education	1947	1385	2031	-646
Bilingual Education	81	263	531	-268
Pell Grants	38525	42686	53343	-10657
SEOG	4942	0	6668	-6666
Work Study	9072	9007	8508	499
** TOTAL **	155865	149442	192751	-43309

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FFY85: Reagan Budget vs. Inflation Adjustment

Missouri State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	54871	53984	69219	-15235
State Block Grant (ECIA Chapter 2)	19543	13654	13654	0
Impact Aid	7375	5614	9476	-3862
Education for the Handicapped	21317	25944	28280	-2336
Vocational Education	15204	16212	21847	-5635
Adult Education	3538	2248	3296	-1048
Bilingual Education	1240	132	266	-134
Pell Grants	46398	62607	78238	-15631
SEOG	6575	0	9244	-9244
Work Study	11011	16666	15744	922
** TOTAL **	187072	197061	249264	-52203

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FFY85: Reagan Budget vs. Inflation Adjustment

Montana State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	10602	10547	13387	-2840
State Block Grant (ECIA Chapter 2)	1590	3392	3392	0
Impact Aid	11347	18478	23413	-4935
Education for the Handicapped	2694	4009	4370	-361
Vocational Education	2713	2669	3772	-1103
Adult Education	622	400	588	-188
Bilingual Education	1471	2114	4272	-2158
Pell Grants	8144	10468	13081	-2613
SEOG	1073	0	1438	-1438
Work Study	2369	2779	2625	154
** TOTAL **	42625	54856	70338	-15482

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FY85: Reagan Budget vs. Inflation Adjustment

Nebraska State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	16665	16485	20440	-3955
State Block Grant (ECIA Chapter 2)	3431	4416	4416	0
Impact Aid	9514	10172	23863	-13691
Education for the Handicapped	6813	8096	8825	-729
Vocational Education	10606	4820	6710	-1890
Adult Education	1071	654	959	-305
Bilingual Education	0	124	250	-126
Pell Grants	17687	24716	30887	-6171
SEOG	2307	0	3574	-3574
Work Study	3374	6589	6224	365
** TOTAL **	71468	76080	106156	-30076

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Nevada State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	4883	6278	8137	-1859
State Block Grant (ECIA Chapter 2)	1925	3392	3392	0
Impact Aid	4911	4084	6867	-2783
Education for the Handicapped	2328	3372	3675	-303
Vocational Education	1994	2507	3184	-677
Adult Education	472	406	595	-189
Bilingual Education	339	308	622	-314
Pell Grants	3028	4568	5708	-1140
SEOG	501	0	890	-890
Work Study	905	2123	2005	118
** TOTAL **	20386	27038	35075	-8037

Prepared by Fiscal Planning Services, Inc., Washington, DC

FY85: Reagan Budget vs. Inflation Adjustment

New Hampshire State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	6426	7981	10582	-2601
State Block Grant (ECIA Chapter 2)	1238	3392	3392	0
Impact Aid	2097	1853	2638	-785
Education for the Handicapped	2052	3216	3505	-289
Vocational Education	5859	3053	4172	-1119
Adult Education	662	462	677	-215
Bilingual Education	425	0	0	0
Pell Grants	9670	9354	11689	-2335
SEOG	3449	0	4865	-4865
Work Study	4096	4679	4420	259
** TOTAL **	35974	33990	45940	-11950

Prepared by Fiscal Planning Services, Inc., Washington, DC

FY85: Reagan Budget vs. Inflation Adjustment

New Jersey State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	79405	107313	140310	-32997
State Block Grant (ECIA Chapter 2)	13240	20663	20663	0
Impact Aid	11650	6874	14157	-7283
Education for the Handicapped	31700	41592	45338	-3746
Vocational Education	38726	19496	25225	-5729
Adult Education	5022	3042	4461	-1419
Bilingual Education	3629	2566	5186	-2620
Pell Grants	64167	66693	83345	-16652
SEOG	7496	0	11920	-11920
Work Study	12069	19861	18762	1099
** TOTAL **	267104	288100	369367	-81267

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

New Mexico State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	27106	29465	38442	-8977
State Block Grant (ECIA Chapter 2)	2805	4177	4177	0
Impact Aid	26403	30521	42521	-12000
Education for the Handicapped	36	6840	7456	-616
Vocational Education	5402	4991	6841	-1850
Adult Education	829	626	918	-292
Bilingual Education	5440	5308	10728	-5420
Pell Grants	15921	13995	17489	-3494
SEOG	2475	0	3824	-3824
Work Study	4651	5163	4877	286
** TOTAL **	91068	101086	137273	-36187

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

New York State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	282342	355331	465060	-109729
State Block Grant (ECIA Chapter 2)	41953	48040	48042	-2
Impact Aid	41075	9488	40330	-30842
Education for the Handicapped	41410	61777	67341	-5564
Vocational Education	55437	49556	64981	-15425
Adult Education	12502	7230	10600	-3370
Bilingual Education	24636	23296	47087	-23791
Pell Grants	310544	341867	427225	-85358
SEOG	30388	0	42250	-42250
Work Study	52756	70294	66406	3888
** TOTAL **	893043	966879	1279322	-312443

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

North Carolina State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	93793	81194	105035	-23841
State Block Grant (ECIA Chapter 2)	9815	17130	17130	0
Impact Aid	10802	4334	19199	-14865
Education for the Handicapped	22583	30193	32912	-2719
Vocational Education	41237	22237	30011	-7774
Adult Education	4409	3118	4571	-1453
Bilingual Education	660	565	1142	-577
Pell Grants	62639	61211	76494	-15283
SEOG	8602	0	12838	-12838
Work Study	13866	22266	21034	1232
** TOTAL **	268406	242248	320366	-78118

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

North Dakota State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	9191	7482	8640	-1158
State Block Grant (ECIA Chapter 2)	1026	3392	3392	0
Impact Aid	7231	8632	11104	-2472
Education for the Handicapped	2056	2767	3016	-249
Vocational Education	2358	2067	3104	-1037
Adult Education	625	393	576	-183
Bilingual Education	0	1337	2702	-1365
Pell Grants	9320	13315	16639	-3324
SEOG	2087	0	3161	-3161
Work Study	2161	2849	2691	158
** TOTAL **	36055	42234	55025	-12791

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Ohio State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	94471	117330	153292	-35962
State Block Grant (ECIA Chapter 2)	31702	31177	31178	-1
Impact Aid	9315	3171	11594	-8423
Education for the Handicapped	30900	50755	55326	-4571
Vocational Education	60716	34397	45740	-11343
Adult Education	7097	4351	6379	-2028
Bilingual Education	1043	1235	2496	-1261
Pell Grants	90630	116446	145520	-29074
SEOG	14277	0	20499	-20499
Work Study	21102	36203	34201	2002
** TOTAL **	377253	395065	506225	-111160

Prepared by Fiscal Planning Services, Inc., Washington, DC

FY85: Reagan Budget vs. Inflation Adjustment

Oklahoma State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter 1	36635	37415	48885	-11470
State Block Grant (ECIA Chapter 2)	3982	8692	8692	0
Impact Aid	21118	22002	36054	-14052
Education for the Handicapped	12413	17250	18803	-1553
Vocational Education	19401	9565	12611	-3046
Adult Education	1973	1363	1998	-635
Bilingual Education	1822	2444	4939	-2495
Pell Grants	28897	30721	38391	-7670
SEOG	3814	0	5819	-5819
Work Study	6255	11482	10847	635
** TOTAL **	136310	140934	187039	-46105

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Oregon State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	33535	37006	49773	-12767
State Block Grant (ECIA Chapter 2)	2904	7219	7219	0
Impact Aid	3320	2207	3673	-1466
Education for the Handicapped	8130	10825	11799	-974
Vocational Education	7027	8350	10847	-2497
Adult Education	1912	975	1429	-454
Bilingual Education	937	885	1788	-903
Pell Grants	26137	36649	45799	-9150
SEOG	6775	0	10792	-10792
Work Study	8503	9675	9139	536
** TOTAL **	99260	113791	152250	-38467

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Commonwealth of Puerto Rico Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	115249	131967	183247	-51280
State Block Grant (ECIA Chapter 2)	4800	12341	12341	0
Impact Aid	5004	0	5128	-5128
Education for the Handicapped	4128	9057	9872	-815
Vocational Education	11229	13103	16871	-3768
Adult Education	2616	2038	2988	-950
Bilingual Education	2129	1775	3587	-1812
Pell Grants	116790	157410	196712	-39302
SEOG	6638	0	8348	-8348
Work Study	7474	13272	12538	734
** TOTAL **	276057	340963	451632	-110669

Prepared by Fiscal Planning Services, Inc., Washington, DC

FY85: Reagan Budget vs. Inflation Adjustment

Pennsylvania State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	137131	164807	215462	-50655
State Block Grant (ECIA Chapter 2)	18051	32060	32061	-1
Impact Aid	10606	3629	11744	-8115
Education for the Handicapped	37756	47057	51295	-4238
Vocational Education	72622	37011	48646	-11635
Adult Education	8431	5035	7382	-2347
Bilingual Education	1458	1422	2874	-1452
Pell Grants	130043	139948	174890	-34942
SEOG	21620	0	30572	-30572
Work Study	29205	38447	36320	2127
** TOTAL **	466923	469416	611246	-141830

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FFY85: Reagan Budget vs. Inflation Adjustment

Rhode Island State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	10323	12252	15697	-3445
State Block Grant (ECIA Chapter 2)	2081	3392	3392	0
Impact Aid	2446	2163	4012	-1849
Education for the Handicapped	2976	4830	5265	-435
Vocational Education	6154	3093	4257	-1164
Adult Education	924	577	846	-269
Bilingual Education	2225	943	1906	-963
Pell Grants	14980	14638	18292	-3654
SEOG	3497	0	5338	-5338
Work Study	4637	4798	4532	266
** TOTAL **	50243	46686	63537	-16851

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

South Carolina State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	57428	49011	63041	-14030
State Block Grant (ECIA Chapter 2)	6273	9616	9616	0
Impact Aid	8820	6405	14499	-8094
Education for the Handicapped	15125	18822	20517	-1695
Vocational Education	23010	12444	16739	-4295
Adult Education	2335	1721	2523	-802
Bilingual Education	0	172	347	-175
Pell Grants	37103	38948	48672	-9724
SEOG	4195	0	6400	-6400
Work Study	8397	10337	9765	572
** TOTAL **	162686	147476	192119	-44643

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FY85: Reagan Budget vs. Inflation Adjustment

South Dakota State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	9587	10007	12026	-2019
State Block Grant (ECIA Chapter 2)	1261	3392	3392	0
Impact Aid	13002	19345	24903	-5558
Education for the Handicapped	2006	3122	3403	-281
Vocational Education	2592	2334	3362	-1028
Adult Education	645	404	592	-188
Bilingual Education	1117	1104	2231	-1127
Pell Grants	12417	17188	21479	-4291
SEOG	2244	0	3300	-3300
Work Study	3061	3403	3214	189
** TOTAL **	47932	60299	77902	-17603

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Tennessee State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	68304	64946	83233	-18287
State Block Grant (ECIA Chapter 2)	6835	13275	13275	0
Impact Aid	7719	1895	11790	-9895
Education for the Handicapped	23750	28122	30654	-2532
Vocational Education	14732	17374	22776	-5402
Adult Education	3355	2425	3555	-1130
Bilingual Education	905	828	1673	-845
Pell Grants	53338	62919	78628	-15709
SEOG	6569	0	9030	-9030
Work Study	10549	14596	13788	808
** TOTAL **	196056	206380	268402	-62022

Prepared by Fiscal Planning Services, Inc., Washington, DC

FY85: Reagan Budget vs. Inflation Adjustment

Texas State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	258244	248163	334283	-86120
State Block Grant (ECIA Chapter 2)	28924	44129	44130	-1
Impact Aid	33731	21450	51925	-30475
Education for the Handicapped	57241	73298	79899	-6601
Vocational Education	84035	45571	59944	-14373
Adult Education	8251	6271	9194	-2923
Bilingual Education	22659	11783	23816	-12033
Pell Grants	98609	104234	130259	-26025
SEOG	17691	0	25974	-25974
Work Study	28371	51052	48228	2824
** TOTAL **	637756	605951	807652	-201701

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FY85: Reagan Budget vs. Inflation Adjustment

Utah State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	10066	12998	16058	-3060
State Block Grant (ECIA Chapter 2)	2063	5089	5089	0
Impact Aid	7562	4886	16435	-11549
Education for the Handicapped	7521	9970	10867	-897
Vocational Education	4744	5363	7574	-2211
Adult Education	942	504	739	-235
Bilingual Education	1113	1234	2494	-1260
Pell Grants	15928	19381	24220	-4839
SEOG	1920	0	3208	-3208
Work Study	2874	7394	6985	409
** TOTAL **		—		
	54733	66819	93669	-26850

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FFY85: Reagan Budget vs. Inflation Adjustment

Vermont State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget - vs. Inflation Adjustment
ECIA Chapter I	6520	7303	9530	-2227
State Block Grant (ECIA Chapter 2)	1306	3392	3392	0
Impact Aid	126	43	77	-34
Education for the Handicapped	2200	1905	2076	-171
Vocational Education	1800	1878	2691	-813
Adult Education	486	325	476	-151
Bilingual Education	495	409	826	-417
Pell Grants	7623	7879	9846	-1967
SEOG	3599	0	5351	-5351
Work Study	3863	4219	3985	234
** TOTAL **	28018	27353	38250	-10897

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Virginia State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	62216	61770	78174	-16404
State Block Grant (ECIA Chapter 2)	9820	15154	15154	0
Impact Aid	36740	16046	64718	-48672
Education for the Handicapped	18657	27333	29794	-2461
Vocational Education	35103	17588	23512	-5924
Adult Education	3561	2501	3667	-1166
Bilingual Education	2772	718	1451	-733
Pell Grants	44168	50443	63037	-12594
SEOG	6608	0	10034	-10034
Work Study	11288	18582	17554	1028
** TOTAL **	230933	210135	307095	-96960

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FFY85: Reagan Budget vs. Inflation Adjustment

Washington State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	45621	48794	65581	-16787
State Block Grant (ECIA Chapter 2)	7155	11523	11523	0
Impact Aid	20792	21317	39959	-18642
Education for the Handicapped	10753	16315	17784	-1469
Vocational Education	10384	12176	16133	-3957
Adult Education	2034	1369	2007	-638
Bilingual Education	3125	1721	3478	-1757
Pell Grants	30630	38842	48540	-9698
SEOG	9176	0	13222	-13222
Work Study	11651	15668	14801	867
** TOTAL **	151321	167725	233028	-65303

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

West Virginia State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	30038	28134	35960	-7826
State Block Grant (ECIA Chapter 2)	1899	5677	5677	0
Impact Aid	456	70	424	-354
Education for the Handicapped	6650	10930	11914	-984
Vocational Education	6004	7062	9263	-2201
Adult Education	1635	1109	1626	-517
Bilingual Education	0	0	0	0
Pell Grants	15725	21436	26788	-5352
SEOG	2580	0	3985	-3985
Work Study	4242	5669	5355	314
** TOTAL **	69229	80087	100992	-20905

Prepared by Fiscal Planning Services, Inc., Washington, DC

FFY85: Reagan Budget vs. Inflation Adjustment

Wisconsin State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference - Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	49809	50711	64537	-13826
State Block Grant (ECIA Chapter 2)	9023	14173	14173	0
Impact Aid	4510	5013	7054	-2041
Education for the Handicapped	12911	18989	20699	-1710
Vocational Education	14846	15541	20773	-5232
Adult Education	2926	1842	2701	-859
Bilingual Education	933	717	1449	-732
Pell Grants	45718	55529	69393	-13864
SEOG	10891	0	17235	-17235
Work Study	11918	19366	18295	1071
** TOTAL **	163485	181881	236309	-54428

Prepared by Fiscal Planning Services, Inc., Washington, DC

FY85: Reagan Budget vs. Inflation Adjustment

Wyoming State Table
Obligations, Thousands of Dollars

Program	Appropriations FY80 (School Year '80-'81)	Reagan Budget Request FY85	FY85 Adjusted For Inflation	Difference Reagan Budget vs. Inflation Adjustment
ECIA Chapter I	5132	5297	6818	-1521
State Block Grant (ECIA Chapter 2)	945	3392	3392	0
Impact Aid	5401	5088	9385	-4297
Education for the Handicapped	1948	2610	2845	-235
Vocational Education	1310	1296	1832	-536
Adult Education	402	281	412	-131
Bilingual Education	328	239	483	-244
Pell Grants	2493	3363	4202	-839
SEOG	453	0	732	-732
Work Study	544	1507	1423	84
** TOTAL **	18964	23073	31524	-8451

Prepared by Fiscal Planning Services, Inc., Washington, DC

AMERICAN DEFENSE EDUCATION ACT

The American Defense Education Act provides federal incentives to local school districts, colleges and universities to improve the quality of instruction and research in the fields of mathematics, the sciences, communication skills, foreign languages, new technologies, and guidance and counseling.

The ADEA:

- authorizes a national program to improve the quality of instruction in the fields of mathematics, the sciences, the communication skills, foreign languages, technology, and guidance and counseling, in addition to reaffirming equality of access to education for all;
- establishes participation requirements for the local school districts, which participate voluntarily in the program;
- provides for an evaluation of the progress of programs developed with ADEA assistance, which requires participation and input from the school board, administrators, teachers, parents, appropriate bargaining agencies, business and industry, and the community;
- provides for incentive payments for school districts working with the ADEA program of a basic payment of two percent of the average per-pupil expenditure in that state, (but not less than the average per-pupil expenditure in the United States), and provides those school districts which can show substantial evidence that the program meets the ADEA goals for the year with an additional two percent payment;
- provides that administration of the ADEA will be under the Department of Education, but calls on the Secretary of Defense to jointly project personnel training needs of the Armed Forces, as well as the educational needs of the Department of Defense to assist in efficient personnel development;
- provides for grant programs at institutions of higher education to facilitate the improvement of teacher training in mathematics and science education;
- provides for evaluation of grant program proposals by practitioners from the elementary, secondary, and postsecondary education communities; and
- provides for establishment of educational research programs on teaching and learning in mathematics, science, foreign language, the instructional uses of information technologies, and the appropriate application of such research to improve instructional materials and teacher training programs.

PRISON REFORM

TUESDAY, MARCH 6, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 10:55 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Symms, Gorton, and Chiles.

Staff present: Stephen Bell, staff director; and William Hoagland, deputy staff director and senior analyst for the agriculture and physical resources group.

For the minority: Richard N. Brandon, staff director.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. Today, I am pleased to welcome our colleague, Senator Arlen Specter, a member of the Committee on the Judiciary and chairman of the subcommittee on Juvenile Justice. He is with us today to discuss the problems of crime control and prison overcrowding.

One of the fundamental responsibilities of the Government is to insure the safety of the people and to resolve legal disputes peacefully and fairly. Crime is a problem, not only in my State of New Mexico but throughout the country, and our citizens are justifiably concerned about it.

The Senate has recently passed the Comprehensive Crime Control Act of 1984. It is my hope that the House will act quickly and take up this needed legislation. I believe that the crime package is a step in the right direction. It is important that the budget resolution for fiscal year 1985 supports this legislation.

Senator Specter, I am very interested in hearing your thoughts on the administration of justice budget. We have your prepared remarks. We are pleased to have you appear.

This is one of our last hearings, at which we receive annual testimony from the chairman of the Armed Services Committee. This testimony is mandated by the Budget Act. We are also pleased to have you appear at the same hearing. It is known that you have had an abiding interest in the problem of prison overcrowding.

While you have not been a Member of the Senate for a long period of time, you have already spent more time than anyone else on this issue.

The issue is the Federal Government's responsibility and role in reference to prison overcrowing.

I am pleased to incorporate your entire statement as part of the record.[1] If you can summarize it, it would be appreciated, and then we will have a few questions, and wrap up the session.

Thank you very much.

STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SPECTER. Thank you very much, Mr. Chairman. I very much appreciate the chairman's making this time available to me.

I have revised my statement somewhat, and would ask leave to submit the revised statement for the record. I shall summarize it and be as brief as possible.

Chairman DOMENICI. Without objection, the revised statement will be made a part of the record.

$650 MILLION REQUESTED FOR PRISONS

Senator SPECTER. Mr. Chairman and members of the committee, my urging today is that this committee allocate some $650 million in budget authority and $200 million in budget outlay for fiscal year 1985, directed specifically to the prisons, which is the critical aspect of an effective criminal justice system. And I do this because there is a nationwide problem, where there are not sufficient numbers of jail cells for judges to sentence hardened criminals to; because the evidence is compelling, conclusive, that judges are not sentencing when they ought to be sentencing, that parole boards are releasing dangerous criminals from jails because there is insufficient space, and it is a matter of evaluating which are the more dangerous, and that situation goes right on here in the District of Columbia, according to evidence adduced at hearings before the D.C. Subcommittee, which I chair, and this problem is getting worse, and it is urgent that action be taken to stem the very shortfall of prison spaces.

The statistics are these, in a nutshell: at the present time there are 24,000 spaces in Federal prisons, there are 30,000 inmates in jail. By 1990 that situation will worsen to a capacity of 28,000 and 38,000 will be in jail, and I believe those statistics are very modest. It is going to be really worse than that.

On the State level, there is currently capacity for 332,000. There are 397,000 incarcerated. By 1990 the situation will worsen substantially, where there will be 419,000 spaces, and 528,000 in jail. I have asked for a General Accounting Office survey, which I ask be made a part of the record, of very recent origin, Mr. Chairman, February 27, 1984, in anticipation of my testimony here.

Chairman DOMENICI. It will be made a part of the record.[2]

Senator SPECTER. The brutal facts of criminal life are these: There are approximately 4 million burglaries committed each year in this country; and about 500,000 robberies; that is the core of street crime. There are many other aspects of violent crime, rape, murder, arson, but robbers and burglaries are the core, and if we were to deal effectively with career criminals, that incidence of crime could be cut by upward of 50 percent, and that is based upon a survey made by the National Commission on Criminal Justice Standards and Goals of 1973, a commission on which I served, and backed up by more recent studies.

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[1] See p. 568.
[2] See p. 583.

INMATES RELEASED BECAUSE OF INSUFFICIENT HOLDING SPACE

The situation across the country appears every day in the headlines. The New York Times reports, and this is statistical information, not news analyses, about 610 inmates being released because of insufficient holding space.[1]

The Washington Post reports about the D.C. jail, that the Mayor is in contempt.[2] There is absolutely no question about the factual conclusion that there is an insufficient number of jail spaces.

The California poll,[3] which was completed on February 22, 1984, Mr. Chairman and members of the committee, I think contains a nutshell of the public view of the importance of this problem, in a way which even we, as practicing politicians–a phrase used by Senator Baker this morning in introducing Chancellor Kohl—and I believe that we in the Congress are as close to the pulse of the people as anyone, but these figures surprised me, as close as I am to the problem of law enforcement, and this is what the statistics show.

Crime and law enforcement are at the top of the list, 73 percent of the people are extremely concerned, 23 percent somewhat concerned. A total, therefore, of 96 percent in the concerned category. Taxes, the subject just under discussion, and constantly under discussion by this committee, 51 percent extremely concerned, 34 percent somewhat concerned. Way behind crime.

Danger of nuclear war, 44 percent extremely concerned, 26 percent somewhat concerned.

TOO LITTLE BEING SPENT ON DOMESTIC DEFENSE

Mr. Chairman and members of the committee, I make the simple submission to you that at a time when we are spending as much as we are on national defense, and I do not quarrel with the necessity for doing so, it is disgraceful that we are spending so little on domestic defense, and that is why I am appearing here today, because, notwithstanding some news of protocol and procedure of the relative positions of the Appropriations Committee and the Budget Committee, Appropriations looks very closely at what the Budget Committee does, and there is a practical consequence of really being bound by what the Budget Committee does, and I know you, Mr. Chairman, have expressed the view to me that it is possible to have allocations within appropriations without special action by the Budget Committee, and I would suggest to you that that is really not so.

I serve on the Appropriations Committee, I serve on the Judiciary Committee and on the authorizing committees, and Criminal Law and Juvenile Justice, which has the responsibility for State financed assistance programs, and on the Appropriations Subcommittee on the Judiciary, and without a recognition of this problem by the Budget Committee, it simply is not going to be attended to.

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[1] See p. 575.
[2] See p. 577.
[3] See p. 578.

That is why I appear especially, and take your time, for what I consider to be the No. 1 priority in this country, which is not being attended to.

And on the big picture, of course, you have the allocations, and you have the priorities. On the big picture, $650 million in authority, and $200 million in outlay is not an enormous amount, but it would be a signal to the law enforcement community and the citizens of this country who are vitally concerned about law enforcement, that the Congress was doing something about it.

Chairman **Domenici**. Thank you very much, Senator Specter.

[The prepared statement of Senator Specter follows:]

Prepared Statement of Arlen Specter, a U.S. Senator from the State of Pennsylvania

I am here today to encourage the Committee to consider increasing the 1985 ceiling for function 750 by $650 million in budget authority and $200 million in budget outlays to begin a comprehensive, coherent, and urgently needed program to expand State and Federal prisons to overcome the public safety crisis arising from premature releases of prisoners caused by severe overcrowding.

Over the next 5 years, we will have to spend about $2 billion on construction, three-fourths of it for state prisons. We need to begin now.

You may recall that I introduced a similar proposal on the floor last year. Senator Domenici supported the proposal in principle, and indicated he would cosponsor any authorizing legislation necessary to carry it out. He encouraged me at that time to bring it up again this year at any earlier stage in the process, and that is why I am testifying here today to encourage the Committee to raise the ceiling before sending the budget resolution to the floor.

Authorizing legislation for the state program can be found in the Justice Assistance Act, which is sure to pass both Houses; and federal prison authority can be found in a number of federal laws. Each system (state and federal) would house only its own inmates, so no new authority is needed.

1981 TASK FORCE RECOMMENDATIONS

This is not a new problem. The Attorney General's Task Force on Violent Crime Report in 1981 emphasized that "(t)he problem of available space in state prisons to keep dangerous criminals off the street is one of the most important violent crime issues in the nation."

At that time, 70 percent of prison cells fell short of federal standards for square footage. Today that figure has risen to 81 percent.

At that time the Task Force recommended legislation calling for $2 billion over 4 years to be made available to states for construction of correctional facilities.

We can delay no longer.

GAO REPORT

My serious concern over this urgent crisis led me to request a thorough GAO Report on future federal, D.C. and state prison and correctional institution populations and capacities. Their early report, conveyed in summary form to me at the end of January—which I now submit for inclusion in the record—projected overcrowding of such crisis proportions that I immediately contacted Senator Laxalt and the two of us met with Edwin Meese and David Stockman to discuss the need for immediate action. The final GAO report was released February 24, 1984 and confirms and substantiates the earlier figures.

The GAO estimates the present prison population—state and federal—at 426,440. The Criminal Justice Institute projects an increase to 480,000 people by next year. GAO predicts that, by 1990, that population will be up to 562,070.

In terms of overcrowding—where states now have 59,153 people in excess of prison capacity, by 1990 they will have 108,324 people in excess of prison capacity. See charts in GAO letter, January 27, 1984, for state, federal and D.C. breakdown.

FEDERAL PRISON PROJECTIONS

If no further capacity increases occur beyond currently approved projects and the inmate population of the Federal Prison System reaches BOP's unofficial fiscal year 1990 estimate of 37,977 inmates, the deficit in prison bedspace will be 10,853 in 1990, producing an overcrowding rate of 40 percent.

A Justice Department graph[1] shows that today the Federal Prison System has 6,000 excess inmates (24 percent overcrowding), and will still in fiscal 1987 despite new construction provided for last year and this year. Although an unprecedented $75 million is requested for 1985, this expenditure will produce less than 3,000 additional cells which will neither eliminate present overcrowding nor accommodate expected increases.

STATE PRISON PROJECTIONS

If there are no further increases in rated capacities other than those already underway or planned, and inmate populations reach the number the states are projecting, state prisons and correctional institutions will experience a prison bedspace deficit of 108,324 and an overcrowding rate of 25.8 percent in 1990.

NEED IMMEDIATE ACTION

We must begin today to alleviate the existing overcrowding and to prepare to handle the projected prison population.

Expansion requiring construction of new brick and mortar facilities generally takes 5–6 years from initial planning to opening. While some rapid expansion can be achieved by renovating existing federal buildings, for example at abandoned military bases, and by temporary facilities such as prefabricated modular steel cells, like those manufactured by Dravo Corporation (delivered in 6 months and at $22,000 per cell, half the normal cost), considerable construction of permanent institutions will still be required. It must be started immediately.

RECOMMENDATIONS

The Federal Prison System should:

1. Immediately expand enough to hold all present and expected Federal convicts for their full sentences without risk of court ordered releases and in accordance with accepted standards against overcrowding (10,000 spaces by 1990), including sufficient space for the large increases in drug traffickers which will inevitably result from the growing strength and effectiveness of the Regional Drug Task Forces, recognizing their sentences will be long and they will not be appropriate for early release.

Total cost: approximately $500 million over 5 years.

The Federal Government should also provide seed money to the states to encourage 3 for 1 matching funds for new construction. States presently pay all but 6 percent of the nation's prison costs although the federal government finances 22 percent of the prosecutive and defense effort, 14 percent of the police effort, and 10 percent of the court effort. State systems presently confine 391,000 inmates (in space designed for 332,000) and by 1990 will have 528,000 inmates. Despite present state plans for new construction, the shortfall will increase from 59,000 to 108,000 spaces by 1990. The Federal Government should also donate land.

Federal Seed Money: $1.5 billion over 5 years.

ROLE IN COMBATING CRIME

I cannot overemphasize the critical role adequate prison space plays in our efforts to combat crime. We are seeing today a renewed national resolve to regain control of our criminal justice system. Naturally, I am glad to see it. However, too often ignored in these efforts is the impact of "get tough" measures on prison overcrowding, and the resulting threat to our public safety.

As the "Report of the President's National Institute of Justice Advisory Board," notes:

"In the final analysis, much of the pressure on the criminal justice system eventually descends onto the correctional institutions. The public demand for the police to "get tough," for legislatures to enact mandatory prison sentences, for prosecutors to bring more offenders to trial, for judges to "lock'em up and throw away the key" translate into swollen jails and prisons until the United States has today the highest prison occupancy levels in its history. *These inmates, gathered in one place, would constitute the nineteenth largest city in our country.* * * * When prisons become intolerably overcrowded, the pressure begins to reverse itself. Offenders are then released early to relieve the population pressure, a development negating the public's will and expectations. * * *

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[1] See p. 573.

"The *police chief of Cincinnati, Colonel Leistler,* described the overcrowding dilemma to the Baord in stark terms: "In Ohio, prisoners who are incarcerated are reviewed as to who is liable to be the least risk to society in making room for someone else coming in the front door." When prisons are overcrowded, the choice becomes a *contest between the public's interest and space demands faced by prison administrators.* Judge Burton Katz, of the *Santa Monica Superior Court* told us: "The California Board of Prison Terms (the parole authority) looks at the criminal who has performed a horrendous crime. *Many times they will release this person just to accommodate his replacement.*" (Emphasis added.)

IMPACT ON FEDERAL CRIME ENFORCEMENT

Premature releases, court orders and prison riots are a serious probability in the Federal System, too, since at 24 percent, present federal overcrowding is already twice the states' average.

Worse still, the Administration's Regional Drug Task Forces, which produce over 1,000 indictments in their first year, could be immobilized by lack of prison capacity. Many of these initial defendants are still awaiting sentencing. Where can they be sent? And what about those, perhaps double in number, who will be indicated in the second year?

Similarly, major violent crime initiatives of the Administration will be blunted. For example, the program recommended by the Attorney General's Violent Crime Task Force in 1981, calling for shifting firearms possession cases from state to federal court where longer sentences are imposed, cannot go forward.

Longer sentences are essential to crime reduction. While the average sentence increased from 43 months in 1978 to 55 months in 1982, lack of space could reverse this highly desirable trend just when definitive studies by the Rand corporation establish that long sentences for high rate career criminals ("selective incapacitation") is the most effective way to reduce crime. One study showed that doubling the sentences for selected inmates could reduce crime by 20 percent.

IMPACT ON STATES

The crisis in the states is similar. Public safety in nearly every state and city is degrading because of an acute and growing shortage of prison space. In more than half the states, prisons are under court orders to relieve overcrowding and must limit new admissions and prematurely parole convicts, many of whom are dangerous career criminals. Already, they have committed new crimes as these news articles report. (Submit attached articles for Record.)[1]

Moreover, sentencing reforms such as flat sentences, longer sentences, and mandatory minimums, are being nullified by lack of prison space. Career criminal and firearms prosecution programs are being undermined, as judges are deterred from imposing appropriate sentences.

JAILS

The situation in the nation's jails, while perhaps less attention getting, is, if anything, even worse than that of the prisions. As Norman Cox, then President-elect of the American Jail Association, pointed out to the President's Advisory Board, "More offenders pass through our jails in a single year than have been confined in our Nation's prisons for the past decade."

Overcrowded jails produce the same ills as overcrowded prisons: the necessity to put potentially dangerous people back on the street prematurely. Pre-trail detention of violent crime suspects may be gaining favor as a means of protecting society from its worst predators. But, for every suspect held under preventive detention in a saturated jail, another inmate must be released. Again, the choice before judges is not who most belongs in jail but who can be fitted in jail.

Justice Department officials say the overcrowding of state prisons compounds problems for county sheriffs and jail officials. According to Carol Kalish, chief of data analysis for the Bureau of Justice Statistics, prisons in 39 states are either under court order or in litigation. As a result, she said, state prison officials are increasingly attempting to put their overflow in county jails.

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[1] See p. 574.

"In 1982, the most recent survey showed, 17 states had a combined total of 8,217 state prisoners housed in local jails because the state prison system was overcrowded," Miss Kalish said. "That was the highest number it's been in the seven years we've been collecting data."

In Manhattan, four of every 10 defendants freed from jail in January to ease overcrowding have missed court appearances or have been arrested on new charges, according to figures released by the Manhattan District Attorney's office.[1] The District Attorney, Robert M. Morgenthau, said that figure was about double what would have been expected had the inmates been released under customary bill procedures. "These are what the results are when you don't have adequate jail facilities," Mr. Morgenthau said. "When you let the hard-core criminals out, fewer of them are going to appear in court." The figures also showed that 30 of the released inmates had been arrested again, accused of crimes committed after their release.

STATE SUPPORT FOR PROPOSAL

1. Governor Thompson of Illinois, in testimony before the Judiciary Committee, Criminal Law Subcommittee in December:

"We are in a capital program now in Illinois in which the demands of our prison system account for 60 percent of all capital spending in the past fiscal year, the present fiscal year, and in the fiscal year ahead.

"Prison capacity today: 15,133 beds. By June 1986, projections indicate need for 21,000 beds.

"To meet demands for prison space in Illinois, we have slept inmates in prison gymnasiums, in the chapels, and at one institution we found space in laundry rooms.

"The incarceration of violent criminals is not a problem which the states should be asked to solve without Federal help. It is a national problem, with a nationwide impact. It is a problem exacerbated to a degree by actions of the Federal courts. And it is a problem I hope you will deal with in the traditional spirit of federal-state cooperation.

"You have a vehicle before you in S. 899."

2. Robert Landon, Director of Virginia Department of Corrections, in testimony before Juvenile Justice subcommittee, July 27, 1983:

"Virginia is quite interested in the concept of the proposed National Violent Crime Program Authorization Act, S. 889, particularly the provision that would appropriate funds for federal assistance to states for construction or renovation of correctional facilities.

"Since 1973, the number of confined adults for whom we are responsible has almost doubled from about 5,300 to more than 10,000.

"Our projections tell us that in 1990, we will be responsible for confining in excess of 15,000 convicted felons! Barring further construction or some significant breakthroughs in community-based diversionary and alternative sentencing programs, we will be faced with a deficit of 2,400 to 3,000 prison beds by 1990.

"So, Virginia would welcome some federal aid in building state correctional facilities."

3. These states are not unique. The National Governor's Association has called federal assistance for capital construction the number one criminal justice priority. Nearly every state is facing a crisis in this area, and nearly every state is actively responding to this crisis. But they cannot do it alone.

As Jim Thompson wrote to me: "We have embarked upon an ambitious building program, but still find that state resources will likely be inadequate to meet our continuing incarceration needs."

This is a national problem that calls for a national response.

PUBLIC SUPPORT—CALIFORNIA

The public is not wholly ignorant of the threat posed by inadequate prison and jail space. In California—home of the parsimonious "proposition 13"—a recent referendum approved substantial sums of money in recognition of the need for funding in the area of violent crime—including more prison space. We can get public support for this kind of legislation.

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[1] See p. 574.

CONCLUSION

Moreover, it is becoming increasingly clear that if we don't resolve this problem of prison overcrowding by appropriating desperately needed funds, the courts will resolve the situation by mandated quotas—with the result, as we are seeing already, of putting dangerous criminals back on the street.

The choice is ours, and we make it today whether we want to or not. Rather than letting events control the state of crime control in this country, I am asking this Committee to take control by appropriating funds to begin dealing with present and projected prison overcrowding today.

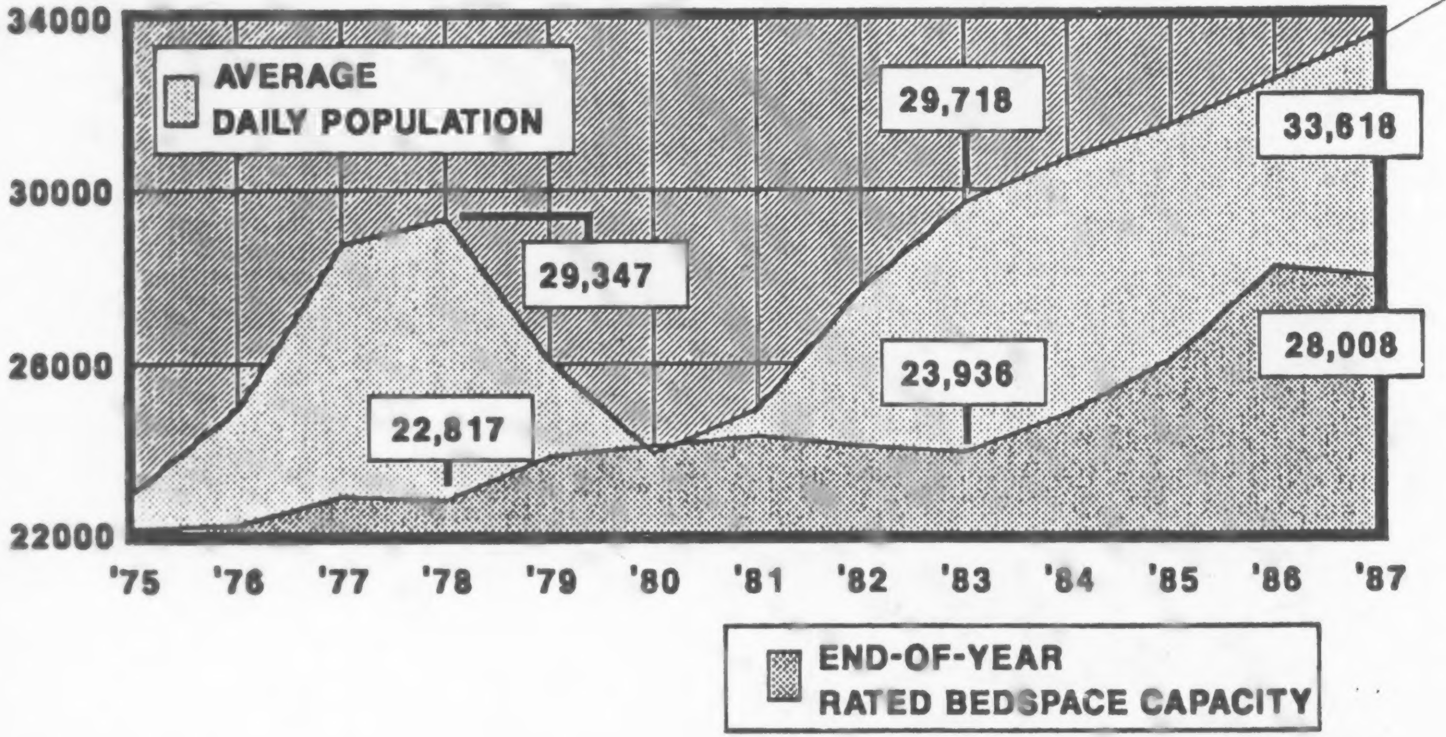
Budget projections might look like this:

[In millions of dollars]

Year	Authority [1]	Outlays
1985	650	200
1986	500	500
1987	400	800
1988	300	300
1989	150	200
Total	20,000	20,000

[1] Multi-year authority.

FEDERAL PRISON SYSTEM - FY 1975 to FY 1987
Average Daily Population vs. Rated Bedspace Capacity



39K
by 1990

90

MANY MANHATTAN INMATES FREED WITH LOW BAIL SKIP COURT DATES

(B. Philip Shenon)

Four of every 10 Manhattan defendants freed from jail last month to ease overcrowding have missed court appearances or have been arrested on new charges, according to figures released yesterday by the Manhattan District Attorney's office.

While officials described the Manhattan figures as surprisingly high, the numbers for the rest of the city were said to be within normal ranges.

Seventy-one of the 214 released Manhattan inmates, about a third, failed to show up for scheduled court appearances, and warrants have been issued for their arrest.

DOUBLE THE AVERAGE

The District Attorney, Robert M. Morgenthau, said that figure was about double what would have been expected had the inmates been released under customary bail procedures. The 613 New York City inmates released last month were freed after paying 10 percent of their bail or, in some cases, without paying any bail.

"These are what the results are when you don't have adequate jail facilities," Mr. Morgenthau said. "When you let the hard-core criminals out, fewer of them are going to appear in court."

According to Mr. Morgenthau's figures, about a dozen of the inmates who missed court dates were already back in jail on new charges.

The figures also showed that 30 of the released inmates had been arrested again, accused of crimes committed after their release. About half are charged with felonies. Figures were not available for the number of inmates usually arrested again within a comparable period of time.

Of the 309 defendants from the other boroughs who were released, 45, or 11 percent, were arrested on new charges as of Monday, and 52, or 13 percent, had failed to make court appearances.

The inmates were set free early last month after Judge Morris E. Lasker of Federal District Court in Manhattan ordered the city to relieve jail overcrowding on Rikers Island. All those released were awaiting trial and had been held in bail of $1,500 or less.

The judge's decision came after more than a decade of litigation over conditions in city jails. Prompted by the prisoner release, Mayor Koch announced last week that the city would spend $154 million to build jail space for 2,200 prisoners.

Two weeks ago, Mr. Morgenthau released statistics showing that 4 percent of the Manhattan inmates had been arrested again and that 24 percent had missed court dates.

The District Attorney, who was critical of the prisoner release, said he chose to announce the updated figures yesterday to correct "a public misperception" that the freed inmates were "traffic violators or welfare cheats."

NORMAL FIGURE OF 16 PERCENT

At a news conference in his office at 1 Hogan Place, Mr. Morgenthau said about 16 percent of Manhattan defendants failed to appear for later court dates under normal bail programs, compared with 33 percent of those freed under the reduced-bail program.

He said that the difference was not a surprise, since many of those released last month had long criminal records and faced long prison sentences if convicted.

In the other boroughs, the problem with missed court dates was far less severe, according to figures supplied by the Criminal Justice Agency, a private groups financed by the city.

In Brooklyn, 23 of 171 freed prisoners, or 13 percent, failed to make court appearances. In Queens and the Bronx, it was less than 9 percent, Staten Island figures were not available.

Citywide, between 10 and 15 percent usually do not show up for later court appearances, the Criminal Justice Agency said.

MANY ARE TRANSIENTS

Mr. Morgenthau said that Manhattan had more trouble getting defendants back into court because, on the average, half of those arrested are transients, a much higher proportion than in the other boroughs. Because they lack community ties that would prompt them to return for court dates, he said, transients are more likely to flee.

The Manhattan defendants arrested after their release have been charged with a variety of new crimes. Among them, six were accused of grand larceny, seven of petty larceny, two of robbery, five of possession of stolen property, four of narcotics charges and one of kidnapping.

The number of freed defendants in the other boroughs who were later arrested was much smaller than in Manhattan: 21 in Brooklyn, 13 in the Bronx and 11 in Queens. None of the 4 freed Staten Island defendants were arrested after their release.

OVERCROWDING SPREADS TO LOCAL JAILS IN UNITED STATES

(By Leslie Mattland Werner)

WASHINGTON, November 22.—The overcrowding that long has afflicted the nation's state and Federal prisons is now common in local jails as well.

The release of 610 inmates by the New York City jail officials this month was but the latest sign of a growing trend. Prisoners lately have been released in such cities as Chicago, Pittsburgh, Grand Rapids, Mich., and in Hudson County, N.J.

Around the country, lawsuits brought on behalf of inmates have resulted in court orders demanding that local officials remedy conditions in jammed, makeshift jails. Lacking other remedies, many officials have chosen simply to reduce the number of prisoners by freeing some.

INMATES AWAITING TRIAL

Local jails hold suspects awaiting trial on state charges and people convicted of misdemeanors; most are imprisoned less than a year. But the duration of their confinement has had little, if any, effect on the way courts are ruling on their situations.

Many of the recent lawsuits have been brought by pretrial detainees, and courts have stressed that as an extra reason why their treatment should be improved. A judge in Georgia, for example, criticizing jail conditions there, said pretrial detainees "have been convicted of no wrongdoing and thus merit no punishment whatever."

The 610 prisoners freed in New York, to comply with a court-ordered ceiling on the number of inmates, were all awaiting trial. Criminal Court judges were infuriated and citizens alarmed, particularly after one inmate was arrested on rape charges two days after his release from jail, where he was awaiting trial on a charge of grand larceny.

Experts and officials say jail overcrowding is a result of several factors. They say the police are making more arrests, judges have been stricter in sentencing and setting bail and communities have been reluctant to build new jails and prisons. Moreover, packed state prisons often send their overflow to local jails.

Edward I. Koren of the American Civil Liberties Union's National Jail Project says judges in some states are now required to consider the room available in local jails in sentencing and bail deliberations.

"In Louisiana," Mr. Koren said, "some judges keep a sign on the courtroom wall indicating the court-ordered capacity of the parish jail so they know how many people they can place in the jail each day."

According to a survey last your by the National Sheriffs' Association, 10.7 percent of the 2,664 of the local jail officials who responded said they were under court order involving overcrowding and related conditions. Almost 16 percent were recently subject to an order, and almost 20 percent were involved in lawsuits.

Here in Washington, the situation reached a peak last month when a Federal judge ruled Mayor Marion Barry Jr. and two of the district's corrections officials were in contempt of court for violating his orders to relieve overcrowding in the jail.

Judge William B. Bryant accused them of a "policy of bad faith" and fined them $50,000, with an additional penalty of $1,000 for each day the city was in violation of his order.

"There can be little doubt that conditions at the jail are in a state of crisis," the judge wrote in his opinion.

In July, with the number of inmates exceeding the jail's capacity by more then 75 percent, the city transferred 450 convicted inmates from the jail to its facility at Lorton, Va. But because of a separate Federal court ruling on overcrowding at Lorton, the city is limited in its ability to transfer more.

STATES USING LOCAL JAILS

Justice Department officials say the overcrowding of state prisons is worsening problems for county sheriffs and jail officials. According to Carol Kalish, chief of data analysis for the Bureau of Justice Statistics, prisons in 39 states are either under court order or in litigation. As a result, she said, state prison officials are increasingly attempting to put their overflow in county jails.

"In 1982, the most recent survey showed, 17 states had a combined total of 8,217 state prisoners housed in local jails because the state prison system was overcrowded," Miss Kalish said, "That was the highest number it's been in the seven years we've been collecting the data."

Among the worst cases, she said, were New Jersey, with 1,584 state prisoners in local jails; Alabama, with 1,286, and Lousiana, with 1,499.

In New Jersey, a Superior Court judge in Hudson County found that state officials had compounded unlawful overcrowding "because prisoners sentenced to state correctional institutions were not being removed by the state, thereby aggravating the overcrowding problem." He ordered them removed at scheduled intervals.

An Arkansas sheriff dramatized his problem in 1981 when he took 18 state prisoners from his overcrowded county jail and chained them to the fence of the state prison in Little Rock.

Like many court cases involving jails, however, the case brought here in Washington was on behalf of unconvicted pretrial detainees. The National Coalition on Jail Reform, an umbrella organization including the American Bar Association, the A.C.L.U. and the National Sheriffs' Association, reports pretrial detainees make up 40 percent of the immates confined to jails.

6.2 MILLION JAILINGS IN 1982

The rest of the jail immates are generally serving sentences of less than a year for convictions of state or local violations or misdemeanors. According to Judith Johnson, director of the National coalition for Jail Reform, 70 percent of the 6.2 million local jailings last year involved nonviolent crimes, including public drunkenness.

The coalition has found that jail inmates generally live under harsher conditions than convicted felons in state prisons. Jails, designed for short stays, often lack recreational or medical facilities and do not provide work or counseling for prisoners.

Mrs. Johnson said only 13 of the nearly 3,500 jails had been accredited by the American Correctional Association. Prisoners in 81 percent of the jails live in cells that do not meet the national standard of 60 square feet of room, "the size of two double-bed mattresses," she said.

According to the most recent survey of the country's 100 largest jails conducted by the Bureau of the Census in June 1982, 49 of them had inmate populations that exceeded their rated capacity. The largest of them, the Central Jail in Los Angeles County, had more than 1,000 prisoners over its rated capacity, and many smaller facilities were similarly taxed.

The situation comes as no surprise to Mrs. Johnson, who says jails annually admit 17 times the number of inmates in state and Federal prisons. She and representatives of many public interest groups believe that the number is unnecessarily high and that new alternatives should be developed instead of simply building new jail space, which now is estimated to cost more than $50,000 a cell.

But, lacking alternatives and facing court action, more and more localites are resorting to prisoner releases.

The practice was upheld in July by the United State Court of Appeals for the Seventh Circuit, in Chicago, in a case initiated by pretrial detainess in Cook County Jail. The court said a court-appointed monitor found the county had failed to meet its goals after a consent decree last year.

More than 400 immates were found "sleeping on the floor, a large number without mattresses or blankets," the court said. The appellate court upheld the Federal district judge who laid ordered that the county "release on their own recognizance the persons held in default of the lowest amount of bail." A similar standard was applied in New York City.

COURT BATTLE IN MICHIGAN

In Grand Rapids, a judge last August also ordered a release, touching off a court battle between the Kent County prosecutor and the county sheriff. The judget acted in accordance with a state law permitting the early release of inmates serving sentences when it was necessary to relieve overcrowding emergencies. When the sheriff triggered the release by declaring an emergency, the prosecutor sued the sheriff, but a judge upheld the constitutionality of the practice.

In Pittsburgh, Federal District Judge Maurice B. Cohill Jr. ruled this month that conditions in the Allegheny County Jail were unconstitutional. The "vast majority of the inmates are state prisoners," he said, adding that the jail was even holding Federal prisoners, a practice he restricted.

He directed corrections officials "to release on their own recognizance" those prisoners "held in default of the lowest amount of bail."

In Hudson County, N.J., the Superior Court judge who had ordered the removal of state prisoners in 1981 also found unconstitutional conditions that stemmed from unlawful overcrowding last year. In his order, Judge Gregory J. Castano directed that the sentences for all prisoners convicted of violations and misdemeanors be cut in half.

Judge Castano said pretrial detainees had been forced to sleep in the floor, that there "was only one toilet to be used by approximately 40 prisoners," and that each prisoner was allotted less than 20 square feet of cell space. Living conditions, he said, "are intolerable and shocking to the conscience."

"That convicted prisoners are routinely warehoused for weeks on and in a less than human atmosphere is deplorable," he said. "That the same treatment is accorded to pretrial detainees who have not even been found guilty of the offense with which they are charged in absolutely intolerable."

[From the Washington Post, Oct. 16, 1983]

D.C. JAIL: THE MAYOR IN CONTEMPT

It has slipped off the front page and local news shows by now, but not—we trust—from Marion Barry's list of urgent matters: the mayor is in contempt of court. He has been in contempt—on the finding of a federal judge—for two weeks now, as have been two D.C. Department of Corrections officials. The finding is serious, and so is the judge; so too, is the issue, which is the overcrowding of the D.C. Jail and its implications for all residents.

His patience exhausted after 12 years and two mayors, U.S. District Court Judge William B. Bryant let go with his toughest ruling yet. In addition to the contempt findings, Judge Bryant ordered Mayor Barry and the two officials to pay a fine of $50,000 for violating an order to reduce the overcrowding at the jail. The judge did note, however, that if—for the next six months—city officials comply with the strict guidelines he set last fall on holding pretrial inmates two to a cell, or "doublecelling," he will rescind the penalties, which include an additional fine of $1,000 a day for each day the city is not in compliance.

Though we oppose the practice of holding public officials personally accountable out of pocket for public policies of this nature, Judge Bryant's finding of contempt—given the long and undistinguished response of the city to is previous findings—is hardly surprising. "What is involved," said the judge, "is not simply another painful instance of bureaucratic rigidity and ineptitude, but rather a policy of bad faith, of disregard for the city's legal obligations, and of deliberate violations of the inmates' constitutional rights—in short a pattern of comtemptuous' conduct as both lawyers and nonlawyers understand that term."

Specifically, Judge Bryant's current concern is based on his agreement a year ago to allow double-celling, but with conditions: no inmates awaiting trial were to be double-celled for more than 12 hours in any day and for no more than 30 days. On Sept. 30 this year, Judge Bryant found that the city had not complied with these restrictions.

There is no quick fix here, and any response is bound to be controversial. U.S. Attorney Stanley S. Harris, for example, has said the city should build more detention facilities rather than attempt to reduce the jail population by adopting legislation aimed at shortening prison sentenses. Council member John Ray agrees that the city probably should expand its facilities, but wants parole eligibility speeded for prisoners whom the parole board deems fit for release. But Mr. Harris contends that the parole board is lenient and already releases prisoners too early. In 1982, he said, 61 percent of the prisoners eligible for parole were released on their first try, and surveys have shown that more than half of those paroled are re-arrested within two years.

Clearly, some new facilities will have to be found. Just as clearly, Mayor Barry will have have to come up with a response satisfactory to the court. Judge Bryant is not known as unreasonable. Mayor Barry should be creative and cooperative enough to get cracking on a plan to end the severe and constitutionally unacceptable conditions that still exist in the city jail.

[From the California Poll, the independent and nonpartisan statewide survey of public opinion established in 1947, San Francisco, Calif.]

High Degree of Public Concern About Two State Issues: Crime and Law Enforcement, Schools and Education

(By Mervin D. Field, Director, The California Poll)

Two state issues which now rank the highest in public concern are "crime and law enforcement" and "the schools and education."

A relatively new issue, "toxic wastes," has emerged as another high ranking state concern, on a par with the long-standing air and water pollution problem.

While "cost of living/inflation" still concerns many state residents, it is not now as high ranking a problem as it was a few years ago.

Other perennial issues, such as "health care," "problems of the elderly and the handicapped," "taxes" and "unemployment," also register relatively high degrees of public concern.

Concerns about the "energy supply" have declined considerably in recent years. Five years ago it was the second ranking state issue. Currently, it has dropped to fourteenth.

These findings come from a statewide survey completed the first week of February. A set of sixteen issues was included and respondents were asked to describe their degree of concern for each one. Following is a list of the problems ranked in the order in which people report being concerned:

DEGREE OF PUBLIC CONCERN ABOUT 16 ISSUES

[Percent]

	Extremely concerned	Somewhat concerned	Not too concerned	Not at all concerned
Crime and law enforcement	73	23	3	1
Schools and education	69	22	6	3
Toxic wastes	59	32	6	2
Air and water pollution	58	33	6	2
Cost of living/inflation	56	31	10	3
Health care	54	32	11	2
Problems of the elderly, the handicapped	53	39	7	2
Taxes	51	34	12	3
Unemployment	48	35	13	4
National budget deficit	45	37	12	4
Housing costs	45	31	16	7
Danger of nuclear war	44	26	17	12
Welfare, public assistance programs	41	38	14	5
Energy supply	37	43	15	3
Government services to citizens	34	42	16	5
Transportation	21	43	23	11

Note: Differences between the percentages of each row and 100 percent equal proportion with no opinion.

A similar list of issues was posed in a 1979 California Poll survey. In that survey respondents were asked the degree of importance which they attached to each issue. While measuring the degree of importance is somewhat different than the degree of concern, comparing the relative rankings of the issues in the two surveys has some validity.

Five years ago "cost of living/inflation" ranked first, whereas it is now fifth. "Energy-supply" was the second most important issue then, but now it has dropped to a relatively low ranking concern.

Today's two top ranking issues—"crime and law enforcement" and "schools and education"—were also ranked high in 1979 (third and fourth). "Toxic wastes," which was not included in the previous survey, ranks third in concern today.

COMPARING ISSUE RANKINGS OF CALIFORNIANS IN 1979 AND TODAY

	Current ranking	1979 ranking
Crime and law enforcement	1	3
Schools and education	2	4
Toxic wastes	3	(1)
Air and water pollution	4	5
Cost of living/inflation	5	1
Health care	6	8
Problems of the elderly, the handicapped	7	7
Taxes	8	6
Unemployment	9	10
Housing costs	10	8
National budget deficit	10	(1)
Danger of nuclear war	12	(1)
Welfare, public assistance programs	13	12
Energy supply	14	2
Government services to citizens	15	13
Transportation	16	10

[1] Not asked.

Chairman Domenici. Senator Symms?

Senator Symms. Thank you, Mr. Chairman, and thank you very much, Senator Specter, for being here this morning.

I find those numbers somewhat alarming. You are talking about—what you are basically telling us is that by another 4 or 5 years we are going to be short 100,000 spaces in the jails, and this means the judges all over the country will have to not lock people up that should be locked up?

Senator Specter. Correct. They are doing it now, Senator.

Senator Symms. OK. Now, if that is the case, what is the percentage of the robbers and burglaries that you mentioned, those numbers, what percentage of robberies and burglaries take place in the United States by repeat offenders. By people who have already been——

ADDITIONAL JAIL CELLS NEEDED FOR CAREER CRIMINALS

Senator Specter. Ten percent of the career criminals commit 70 percent of the robberies and burglaries.

What we really need to direct a comprehensive program is 200,000 additional jail cells to hold the career criminals.

Senator Symms. I suppose it is not realistic to think that there would ever be a day when we would have a third time loser, or something where you put a guy away, and throw the key away completely?

Senator Specter. No, there would be. We had a measure before the Senate last week, where I was lobbying the Senator from Idaho, in the well, on this issue, a matter which is going to recur.

The State courts are soft on sentencing, and the State courts are overcrowded on their court calendars. The career criminal bill, which was up last week, which was watered down so that the third offense had to be on Federal property, would have gone a long way to putting pressure on these career criminals to enter guilty pleas in the State, because if they knew that absent a guilty plea in Boise, Idaho State court, where they would get a 10-year sentence, that they were going to be hauled into the Federal court, and get a mandatory 15 years to life, there would be a lot of people pleading guilty in Boise and Philadelphia and Alburquerque and Miami, and taking a sure lesser sentence, to rid the court calendars at the local level, and put people in jail in a sure way. That is the best way to really leverage the career criminal.

Senator SYMMS. That is a persuasive argument.

Are we going to have another vote on that, or have we passed our day in court on that?

Senator SPECTER. No, I am moving for reconsideration this afternoon.

Senator SYMMS. OK. Now, you say 70 percent of the career—70 percent of the robberies and burglaries take place by 10 percent of the career criminals?

Senator SPECTER. Correct.

Senator SYMMS. OK. Could the same thing be said for rape, or do you have statistics on that?

Senator SPECTER. No, it would not be such a high incident, but again the repeaters are very extensive.

Senator SYMMS. And dope peddlers, the same kind of thing?

Senator SPECTER. Yes, sir.

Senator SYMMS. Well, it seems like what we ought to do is have some kind of a system where third time and you are out. At least you get rid of those people.

Senator SPECTER. That is exactly what the career criminal bill seeks to do.

Senator SYMMS. But that—but what you are telling us here is because of our unwillingness as a society, just to take these guys up to death row, or something, we might build some more jail cells?

Senator SPECTER. That is right.

Senator SYMMS. You realize what you are up against, is the prisoners do not get to vote.

Senator SPECTER. That is too bad.

Senator SYMMS. So there is a lot of Congressmen, they do not want to have a big prison constituence.

Senator SPECTER. Well, but the Congressmen want to have the prisoners off the streets, to safeguard their constituency.

Senator SYMMS. I understand. I appreciate it.

That is very good testimony, and certainly something that we better take a look at.

Chairman DOMENICI. Senator Chiles?

MORE MONEY NEEDED FOR REQUESTED ADD ONS

Senator CHILES. Senator Specter, I note that you have spoken on the need to provide additional emphasis in some of these areas, and prison is one of them.

Looking at the administration's budget, the President's budget, we see that it was even highlighted in his state of the Union address, that he was adding some money for law enforcement activities. I was delighted to see that.

As I look at the budget, though, I see that he has provided for no funding for legal services, and cuts out the juvenile justice delinquency prevention program. Both of those have been before the

Congress on two or three occasions, and in every instance the Congress has failed to side with the administration on those cuts.

I do not believe that is going to change and those add-ons the President requested have really been done by cutting these programs in his budget. If that does not happen—and unless you can tell me something I do not know—I know of no way it is going to happen. Do you think that we should then increase the function, which we would have to do, to provide for these add ons the President has requested, or do we just forget about the add ons?

Senator SPECTER. Senator Chiles, I believe that the juvenile justice program will be preserved, that is my subcommittee in Judiciary, it is down to $70 million. I think we will keep it intact.

Similarly, I think community legal services will be retained in existence, somewhere around the $243 million level, but I do believe that you are correct when you say that there are not really add ons, when you see what has been subtracted.

If we were really to take a hardnosed approach to the problem of crime, it would require an allocation of resources, such as I proposed in Senate bill 889, which would allocate 1 percent of our Federal budget a year, over 10 years, for a $100 billion program, which is what I think we really need, and that would include additional funding on items like investigators, on calendar control, on judicial systems, as well as prisons and rehabilitation in a really comprehensive way.

Now, we are not about to do that. I know that, and given the limited funds, what I am appearing here today is to ask for a very stripped down version, on the most glaring, open sore that our criminal justice system has, without which we are not jailing convicts who ought to be jailed, and we are releasing convicts on parole who ought to be retained. It is not very much to do, what I am asking, but this is the gaping sore which needs some sort of a bandage.

Senator CHILES. I thank you.

Senator SYMMS [presiding]. How much more money is it that you are actually recommending?

Senator SPECTER. $650 million in budget authority, and $200 million in outlays.

Senator SYMMS. That is over and above what is in the budget?

Senator SPECTER. Yes. And what I am looking for, Mr. Chairman, is a designation by the Budget Committee, so that this committee would say, having considered the panorama, and broad sweep of priorities, that this is one which ought to be attended to in this way. That is the only way that the Appropriations Committee, where I sit, the Subcommittee on Judiciary, which takes up the prisons, is going to allocate this money.

Senator SYMMS. Well, I have to say that what you say, it makes a lot of sense. I guess if you could—some of us would say that we ought to have the death penalty for third- or fourth-time offenders, and get rid of them, but that is not practical politically in this country, and it is not going to happen, so we might as well start looking at how to get these people off the streets.

What you are saying is that our society is not prepared just to lock these people in a dungeon somewhere, and have that kind of a system, either, so that we better go ahead and fix a proper prison facility where these people can be retained. And if there is a possibility that a person could be rehabilitated, they will get that chance, otherwise they are off the streets, and no longer a risk to society.

S. 889 WOULD PROVIDE REHABILITATION

Senator SPECTER. Senator Symms, the more comprehensive analysis which I have in S. 889 would provide rehabilitation for juveniles and first offenders and second offenders. It is no surprise that when we release functional illiterates without a trade or a skill, that they come back to a life of crime. That ought to be done as well, and that is a priority item, and I realize that we are not going to get it all done now.

So I am trying to focus on the really big problem. When you talk about dungeons, the record ought to contain the information that there are some 39 States under litigation or court orders—near court orders, or under court orders. More than 50 percent have had court orders, where the Federal judicial system and State judical systems have said that the jails are insufficient.

So you cannot function on the level of the dungeon. You simply cannot.

Senator SYMMS. Well, I realize that. I do not think we are prepared to accept that as a society, anyway.

But the problem is that the Americans do not focus on the prison, because unless they are somehow involved in it, they are not aware of it. So politically there is not a big momentum.

I compliment you for exerting some leadership in this area, because it is obvious that there are not very many people in the Congress that are exerting leadership on it, and I thank you for bringing to our attention.

MOST MURDERERS ARE NOT REPEAT OFFENDERS

Just one final question. I am kind of shocked by this number on career criminals.

Is this true in the case of murderers also, that a high percentage of murderers are repeat offenders?

Senator SPECTER. No, it is not true as to murderers.

The traditional statistics are that about 70 percent of murders are committed by people who know one another. In a family situation, good friends, where there is an emotional outburst, and there is not that kind of repetition.

There is a limited recidivist rate among robbers and among people who are incarcerated for life, where prison guards are murdered, or other inmates are murdered. There is recidivism to that extent, but the repetition does not extend to murder as it does to robbery, burglary and rape, and arson, as well.

Senator SYMMS. Thank you very much. We appreciate your testimony.

The meeting is adjourned.

[Whereupon, at 11:25 a.m., the committee adjourned, subject to the call of the Chair.]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

January 27, 1984

GG4-14

The Honorable Arlen Specter
United States Senate

Dear Senator Specter:

As discussed with your office yesterday, I am providing you with information on inmate populations and correctional institution capacities for the Federal Prison System, the District of Columbia, and the 50 states. To meet your immediate needs we are enclosing aggregated data for each of these three corrections systems.

The data contained in the enclosures was provided at our request by the Bureau of Prisons, the District of Columbia Department of Corrections, and the corrections departments of the 50 states. As discussed with your staff, the data has certain limitations.

We would be happy to meet with you or your staff at any time to discuss the information in more detail.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

Enclosures - 3

FEDERAL PRISON SYSTEM

Item	1983	1990
Average daily population	29,718	37,977[a]
Rated capacity	23,936	27,174[b]
Population in excess of capacity (overcrowding)	5,782	10,803

[a] This number is based on an official BOP projection of 35,182 in fiscal year 1988 and an unofficial projection for fiscal years 1989 and 1990. Capital costs to increase the rated capacity of the federal prison system to house BOP's projected fiscal year 1988 inmate population are estimated by BOP to be $310 million in 1983 constant dollars.

[b] Includes approved increases in rated capacity through fiscal year 1988 amounting to 3,188 inmate bedspaces.

DISTRICT OF COLUMBIA
DEPARTMENT OF CORRECTIONS

Item	1983	1990
Average daily population	5,125	5,900
Rated or operating capacity	4,599	5,342[a]
Population in excess of capacity (overcrowding)	526	558

[a] Includes approved increases in capacity amounting to 743 additional institutional inmate living spaces by December 31, 1984. Capital costs to increase the rated capacity of District of Columbia Department of Corrections institutional facilities to house projected fiscal year 1988 inmate population are estimated by the District to be $59.9 million.

THE 50 STATES

Item	1983	1990
Inmate populations as of September 30	391,597	528,193
Physical design or rated capacity as of September 30	332,444	419,869[a]
Population in excess of capacity (overcrowding)	59,153	108,324

[a] Includes ongoing and planned increases in physical design or rated capacity. Some states did not provide projections of capacity for all years. To permit aggregation, we used the last yearly figure provided and carried the number forward for those years for which data was not provided. For this reason, the above figures may underestimate capacity levels for 1990.

BY THE U.S. GENERAL ACCOUNTING OFFICE

REPORT TO THE HONORABLE ARLEN SPECTER
UNITED STATES SENATE

FEDERAL, DISTRICT OF COLUMBIA, AND STATES FUTURE PRISON AND CORRECTIONAL INSTITUTION POPULATIONS AND CAPACITIES

The Federal Prison System's average daily inmate population in fiscal year 1983 was 29,718 and is projected to reach 35,182 in 1988 and 37,977 in 1990. Rated capacity (the number of inmates institutions are designed to house) was 23,936 in 1983 with approved increases resulting in 27,124 inmate bedspaces in 1988.

The average daily population in District of Columbia institutions was 5,125 in 1983 and is projected to reach 5,900 in 1987. Rated capacity was 4,599 in 1983 and will increase to 5,342 bedspaces by 1985.

On September 30, 1983, there were about 391,597 persons in state prisons. States' projections of inmate population for 1984 through 1990 indicate that it will grow to 528,193 inmates in 1990. The States reported rated prison capacity of 332,444 as of September 30, 1983, and project a capacity of 419,869 in 1990.

GAO/GGD-84-56
February 27, 1984

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

FEB 27 1984

B-214472

The Honorable Arlen Specter
United States Senate

Dear Senator Specter:

In response to your October 6, 1983 request, we obtained information on prison and correctional institution populations and capacities for the Federal Prison System, the District of Columbia, and the 50 states for the period 1983 through 1990. As agreed with your office, we compared their projections of future populations with their estimates of future prison and correctional institution capacities to (a) identify the potential deficit or surplus in prison and correctional institution bedspace and (b) estimate costs to reduce crowding through new prison construction or expansion projects assuming no alternatives to increasing prison capacity (such as expanded use of community treatment centers) were to be developed and implemented. Also, we examined the methods and models used by the Bureau of Prisons (BOP) and the District of Columbia in their prison population projections.

FEDERAL PRISON SYSTEM

In fiscal year 1983 the Federal Prison System had an average daily inmate population of 29,718 and projects its fiscal year 1988 inmate population to be 35,182 (an increase of 18.4 percent.) The fiscal year 1983 rated capacity (the number of inmates institutions are designed to house) of the Federal Prison System is 23,936. However, approved new construction and expansion projects will add 3,188 prison bedspaces, boosting rated capacity to 27,124 in fiscal year 1988. Unofficial BOP estimates put the average daily inmate population at 37,977 in fiscal year 1990, a 27.8-percent increase over 1983 levels. Currently the Federal Prison System's inmate population exceeds its rated capacity by 24 percent. If no further capacity increases occur beyond currently approved projects and the inmate population of the Federal Prison System reaches BOP's unofficial fiscal year 1990 estimate of 37,977 inmates, the deficit in prison bedspace will be 10,853 in 1990, producing an overcrowding rate of 40 percent.

DISTRICT OF COLUMBIA

In fiscal year 1983 the District of Columbia's average daily incarcerated inmate population was 5,125. The District projects this population will increase to 5,900 inmates in fiscal year 1987 and remain constant at that level through fiscal year 1990. The rated capacity of District Department of Corrections institutional facilities in fiscal year 1983 was 4,599 bedspaces,[1] but the average daily 1983 inmate population exceeded rated institutional capacity by 11.4 percent. Approved new construction and expansion projects will increase rated capacity to 5,342 institutional bedspaces by the end of 1984. If no further capacity increases occur beyond currently approved projects and the District's incarcerated inmate population reaches 5,900, as it has projected for fiscal year 1987, overcrowding rates will remain constant at 10.4 percent from fiscal years 1987 through 1990.

THE 50 STATES

On September 30, 1983, approximately 391,597 persons were incarcerated in state prisons and correctional institutions in the 50 states, 17.8 percent (59,153) over their rated capacity. The physical design or rated capacities of state prisons and correctional institutions in 1983 was approximately 332,444. States' projections of future capacities for the years 1984 through 1990, indicate a rated capacity of 419,869 in 1990. But states' projections of future inmate populations for 1984 through 1990 indicate that the population will grow to 528,193 inmates in 1990, an increase of 136,596 (or 34.9 percent).[2] If there are no further increases in rated capacities other than those already underway or planned, and inmate populations reach the number the states are projecting, state prisons and correctional institutions will experience a prison bedspace deficit of 108,324 and an overcrowding rate of 25.8 percent in 1990.

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[1] This figure does not include 300 bedpsaces in community corrections centers in that these are not prisons or correctional institutions.

[2] For states which did not provide projections for each year, we used the last figure provided and carried this number forward to permit summarization for all fifty states for the years 1984 through 1990. Unless future inmate populations decline in these years, the growth in state prison and correctional institution populations reflected in the above number is a conservative estimate of future trends. (See appendix I pp. 5 and 6 and appendix II pp. 12 and 13 which discuss limitations of data provided by the states.)

BOP estimates that capital costs to increase the rated capacity of the Federal Prison System to house all but 1.4 percent of the projected future inmate population of 35,182 in fiscal year 1988 would be $310 million in 1983 constant dollars. The Bureau of Prisons did not provide projections of operating costs that would accompany increased capacity. The District of Columbia estimates that capital costs to increase the rated capacity of District of Columbia Department of Corrections institutional facilities to house projected fiscal year 1988 inmate populations would be $59.9 million. The District estimates additional operating costs of $8.7 million would be needed to support such increases in capacity. The 50 states would have to add 108,324 additional bedspaces to the rated capacities of their prisons and correctional institutions to house projected inmate populations in 1990 at an estimated capital cost of $4.7 billion. On the basis of 1982 national average operating costs per inmate, additional operating expenses associated with such capacity increases are estimated at $1.7 billion in 1982 constant dollars.

The appendices to this letter provide detailed information we obtained in response to your request. For the most part, the information was provided at our request by the Bureau of Prisons, the District of Columbia Department of Corrections, and departments of correction for the 50 states. We did not independently verify the accuracy of the data provided to us. A discussion of our objectives, scope, and methodology is provided in appendix I. Also, as requested by your office, we did not obtain agency comments. As arranged with your office unrestricted distribution of this report will be made 30 days after the date of the report or at the time of public release of the report's contents by your office.

Sincerely yours,

W.J. Anderson

William J. Anderson
Director

INTRODUCTION

OBJECTIVES, SCOPE, AND METHODOLOGY

At your request we obtained information on prison and correctional institution populations and capacities for the Federal Prison System, the District of Columbia, and each of the 50 states. As agreed with your office we

--obtained projections of future prison and correctional institution populations and physical design or rated capacities for the fiscal years 1984 through 1990;

--compared prison population projections with estimates of future prison and correctional institution capacity to (a) identify the potential deficit or surplus in prison or correctional institution bedspace and (b) estimate costs to reduce crowding through new prison construction or expansion projects, (assuming no alternatives to increasing prison capacity were to be developed and implemented); and

--examined the methods and models used in prison population projections.

To obtain projections of future prison and correctional institution populations and estimates of future capacity we asked the Federal Bureau of Prisons (BOP), the District of Columbia Department of Corrections, and departments of corrections directors from the 50 states to provide us with information on actual and projected future inmate populations and estimates of future prison and correctional institution capacities for fiscal years 1983 through 1990.

To determine the magnitude of prison crowding, now and in the future, we compared BOP's, the District's and the 50 states' projections of future prison and correctional institution capacities with their projections of future incarcerated offender populations. We then obtained BOP's and the District's estimates of how much additional new prison construction or expansion would be needed (including information on capital costs) to house projected future inmate populations at or near physical design or rated capacity if no alternatives to increasing prison capacity were to be developed and implemented. For the 50 states, we estimated capital costs to increase physical design or rated capacities to house future incarcerated offender populations states are projecting by the year 1990 using national average per bed construction costs experienced by the 50 states in 1983.

Federal Prison System

Bureau of Prisons (BOP) officials provided data on fiscal year 1983 average daily inmate populations and official projections for fiscal years 1984 through 1988 and unofficial estimates of projected populations for the Federal Prison System for fiscal years 1989 and 1990 in response to our request. We interviewed BOP officials responsible for preparing population projections to determine what methods and assumptions BOP uses in developing its projections of future Federal Prison System inmate populations.

We examined the models and methods used by BOP in making its projections to confirm the results BOP obtained. We did not independently verify the accuracy of the data provided to us.

District of Columbia

The District of Columbia Department of Corrections provided data on fiscal year 1983 average daily inmate populations and its most recently revised projections for fiscal years 1984 through 1990, along with supporting data, models, and a description of the methods used to develop the projections. We interviewed Department of Corrections officials about the assumptions upon which their population projections are based and how they were made. We did not independently verify the accuracy of the data provided to us.

The 50 states

We used a mailed survey questionnaire addressed to the directors of 50 state corrections departments to obtain data on each state's 1983 state prison and correctional institution population and capacity, projected future populations, and estimates of future prison and correctional institution capacities for the years ending September 30, 1984 through 1990. Followup telephone interviews were conducted to obtain as complete a response as possible within the time constraints of the request. Information on methods states used in making their population projections was also requested.

LIMITATIONS OF DATA

In several instances the data on inmate populations provided to us by the states did not distinguish between sentenced incarcerated offenders and other inmates held in detention awaiting trial, sentencing, or transfer. This was particularly true of states which operate unified corrections systems which include local correctional facilities as well as state prisons and correctional institutions. We have indicated these circumstances in the qualifying information and notes on limitations of the data presented for the 50 states, in appendix VII. For the District of Columbia and the Federal Prison System we obtained a breakdown of the approximate numbers of persons housed or to be housed in prisons and correctional institutions, prison camps, detention centers, and other correctional facilities that represent confinement in a secure residential facility. Distinction by conditions of confinement, where possible, are noted.

Data for the Federal Prison System and the District of Columbia are presented as average daily populations for fiscal years 1983 through 1990. Data obtained from the states includes a mixture of projected average daily populations, projected populations for the years ending September 30, and/or projected populations as of the end of or the beginning of some other month for the period 1983 through 1990. For some states, projections of future prisoner populations were not available for all years. Some states were reluctant to provide any estimates of prison populations for future years despite our efforts to obtain them through followup telephone interviews. Also, during the followup phase of our work we were alerted to the fact that many states were in the process of modifying or revising their projections. The limitations obviously reduce the utility of inferences made based on these data.

In our survey of the 50 states we stipulated that we were concerned with populations of adult offenders and institutions for adult offenders that are under state jurisdictions. This would exclude county jails which are designed primarily for holding persons in detention while awaiting trial or sentencing and for holding short-term sentenced misdemeanant offenders. However, in some states there will be longer-term felony offenders serving a portion of their sentences in county prisons and jails. Unless these sentenced offenders in county facilities are considered to be under the custody/jurisdiction of the state and/or the county prisons are operated under the general authority of the state as part of the state's prison or correctional system, they were to be excluded. Also to be excluded were data on the population and capacity of institutions devoted to housing juveniles adjudicated by the family or juvenile courts.

DEFINITIONS

For the purposes of this study, we used the following definitions.

(1) Prisons and correctional institutions are secure residential facilities that house primarily adult sentenced offenders serving terms of confinement of one year or more.

(2) Prison capacity is defined in two ways.

--Physical design capacity is the number of inmates or residents the correctional setting is holding or will be built to hold under a standard such as 60 square feet per person per cell. In some jurisdictions, this is referred to as "rated" capacity.

--Maximum allowable capacity refers to the actual number of inmates that a facility can hold (for example, during emergency conditions) without violating state law, agency regulations, federal rules, or court orders.

PRISON AND CORRECTIONAL INSTITUTION POPULATIONS-1983 THROUGH 1990

FEDERAL PRISON SYSTEM

The average daily inmate population of the Federal Prison System in fiscal year 1983 was 29,718, of which 28,064 were male and 1,654 were female prisoners. Table FPS-1 (on pages 43 to 45 in appendix VII) shows the average daily inmate populations by security level and facility in fiscal year 1983.

On September 30, 1983, Federal Prison System facilities held 30,214 inmates. The following table shows the composition of this population in terms of federal prisoners, sentenced non-federal District of Columbia prisoners, and sentenced state prisoners.

Composition of inmate population	Number	Percent of total
Federal	27,728	91.8
District of Columbia	1,390	4.6
State[a]	1,096	3.6
Total	30,214	100.0

[a] Includes 114 prisoners from local/territorial courts in the Northern Marianas, Guam, Virgin Islands, and Puerto Rico.

At our request, BOP provided us with an update of its official long-range projections of inmate populations for fiscal years 1984 through 1988 and unofficial projections/estimates for fiscal years 1989 and 1990. BOP's official long range projections show that the average daily inmate population of the Federal Prison System is expected to grow from 29,718 inmates in fiscal year 1983 to 35,182 inmates in fiscal year 1988 (an increase of 18.4 percent). Unofficial BOP estimates for fiscal years 1989 and 1990 indicate an average daily population of 37,977 in fiscal year 1990 which would represent a 27.8 percent increase over the 1983 average daily inmate population. The following table contains both official and unofficial BOP population projections, distinguishing sentenced prisoners from alien detainees and other unsentenced prisoners.

	Official BOP 5-year long range projection					Unofficial BOP estimates	
Inmate category	1984	1985	1986	1987	1988	1989	1990
Sentenced	27,945	29,170	30,206	31,226	32,396	33,870	35,191
Unsentenced and other	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Total	30,731	31,956	32,992	34,012	35,182	36,656	37,977
Percent change in 1983 population	+3.4	+7.6	+11.0	+14.5	+18.4	+23.4	+27.8
Percent change year-to-year	+3.4	+4.0	+3.2	+3.1	+3.4	+4.2	+3.6

Average yearly increase, fiscal year 1984-1990 = 3.57 percent.

In making its projections of future Federal Prison System populations BOP used, in their terms, an "amalgamated" forecasting approach. This involves averaging the results from separate projections derived from the application of six different projection methods which are discussed more fully in appendix VI.

DISTRICT OF COLUMBIA

The average daily number of District of Columbia prisoners during fiscal year 1983 was 6,572, the majority of whom where housed in District of Columbia facilities. The following table shows where the District's average daily 1983 prisoner populations were being housed.

Location	Number
D.C. and Lorton facilities	5,125
D.C. contract community correctional centers	300
Federal Prison System	1,147
Total	6,572

As shown above, the District's institutional correctional facilities housed an average daily population of 5,125 inmates during 1983. This number includes sentenced and unsentenced offenders since the District operates a unified detention and prison system. The limited numbers and/or capacity of existing District institutional correctional facilities and court ordered ceilings on allowable inmate population levels for certain facilities have resulted in the District housing both sentenced and unsentenced prisoners in two locations.

The Detention Facility, located in the District, had an average daily inmate population in fiscal year 1983 of 2,174 prisoners including both unsentenced and sentenced prisoners. The Lorton Prison Complex, about 20 miles south of the District, had an average daily inmate population in fiscal year 1983 of 2,951 prisoners (mostly sentenced prisoners but including some unsentenced detainees). The table below shows the average daily incarcerated populations for the District's Detention Facility and Lorton Prison Complex institutions in fiscal year 1983.

Facility	Average daily population
Detention Facility	2,174
Lorton Prison Complex:	
Central-medium security	1,223
Maximum security	447
Minimum security	255
Occoquan I-medium security	454
Youth Center 1-Youth Corrections Act facility	371
Youth Center 2-Youth Corrections Act facility	201
Total	5,125

At our request the District of Columbia Department of Corrections developed projections of future inmate populations from fiscal year 1984 through fiscal year 1990. Overall, the District is projecting a 15 percent increase in their institutional inmate population from fiscal year 1983 to fiscal year 1990, from 5,125 to 5,900 respectively. Their projections show the growth in inmate population leveling off in 1987.

The following table shows the District's projected average daily population in the District's Detention Facility, the Lorton Prison Complex, contract community corrections centers and the Federal Prison System during fiscal years 1984 through 1990.

Location of D.C prisoner population	Inmate population by fiscal year						
	1984	1985	1986	1987	1988	1989	1990
Detention Facility	1,700	1,805	1,750	1,972	1,920	1,901	1,901
Lorton Prison Complex	3,768	3,903	4,050	3,928	3,980	3,999	3,999
Subtotal	5,468	5,708	5,800	5,900	5,900	5,900	5,900
Community corrections centers	300	300	300	300	300	300	300
Subtotal	5,768	6,008	6,100	6,200	6,200	6,200	6,200
Federal Prison System	1,182	1,218	1,255	1,294	1,333	1,374	1,415
Total	6,950	7,226	7,355	7,494	7,533	7,574	7,615

The District projects that its average daily inmate population in the Detention Facility will decrease 13 percent (from 2,174 to 1,901 inmates) between fiscal years 1983 and 1990. The District attributes the anticipated decline to the scheduled opening of additional facilities at the Lorton Prison Complex in 1984, which will permit the District to house more of its projected future sentenced prisoner populations at the Lorton facilities. The projected inmate population at the Lorton facilities is expected to increase 36 percent (from 2,951 to 3,999 inmates) between fiscal years 1983 and 1990.

A population of approximately 300 residents in community correctional centers is expected to remain the same during this period. The number of non-federal District of Columbia sentenced offenders who are expected to be housed in the Federal Prison System represent 17 to 18 percent of the total population of District offenders. The District projects this number to increase proportionately with the size of the total District of Columbia correctional facility population--from 1,147 in fiscal year 1983 to 1,415 in fiscal year 1990, an increase of 23.4 percent.

The District of Columbia Department of Corrections develops projections for a three-year period using criminal justice and demographic factors which have been determined, historically, to have had the greatest impact on the District's prisoner populations. The District uses these projections in extending the projection period four years to prepare capital planning estimates which include consideration of other factors such as changes in criminal justice policies, practices, operations, or law that have potential for changing future prisoner populations (but which cannot easily be incorporated in a projection formula). Assumptions and methods used by the District in its population projections are discussed more fully on pages 36 to 39 of appendix VI.

THE 50 STATES

In a survey questionnaire sent to the directors of the 50 state departments of corrections, we asked for data on each state's actual 1983 and projected 1984 through 1990 state prison and correctional institution populations. While we were successful in obtaining responses from all 50 states through extensive telephone followup efforts, some states did not provide projections of future state prisoner populations for each year. In presenting each state's data we have noted which states did not provide information on projected prisoner populations with the designation N.A. for each year the data were not available. (See table S-1, on pages 46 to 59 in appendix VII.)

For some states the estimates include (a) inmates in detention status awaiting trial or sentencing, (b) inmates who serve all or a portion of their sentences in non-institutional settings while participating in residential community corrections programs, such as work release, but who are counted by the state in its total prisoner population, and (c) state sentenced prisoners who have been transferred to other state or federal institutions. The effect of these conditions would tend to overstate the size of the sentenced incarcerated population in 1983. And, if projected forward in time by the states, it would contribute to overestimating the growth trend in projected future sentenced inmate populations incarcerated in state prisons and correctional institutions.

For other states, some portion of the states' sentenced incarcerated population is being housed in local correctional facilities awaiting space in state institutions, or serving some portion of their sentences in locations near their homes to ease transition upon release and, thereby, freeing bedspace in state institutions for inmates who are to serve longer sentences. Consequently, where this segment of the states' sentenced incarcerated population has not been included in the figures provided, the data for that state underestimates the true size of the sentenced incarcerated inmate population that normally would be housed in state facilities.

For these and other reasons discussed more fully in the notes accompanying the presentation of data for the 50 states in table S-1 in appendix VII, caution should be exercised in interpretating and using the states' data as indicators of current and future trends in sentenced state inmate populations. Bearing these facts in mind, we compiled and analyzed the data to provide a composite measure of current and projected state prison and correctional institution populations for the 50 states.

On September 30, 1983 there were approximately 391,597 persons incarcerated in state prisons and correctional institutions in the 50 states. Projections made by the states of future inmate populations for the years ending September 30, 1984 through 1990 indicate that the population will increase to 528,193 inmates in 1990, an increase of 136,596 (or 34.9 percent). For those states which did not provide data on projected populations for certain years between 1984 and 1990, we used the last figure provided and carried this number forward as a surrogate indicator or measure of those states' future inmate populations to permit a summary nationwide projection for the 50 states. Unless future inmate populations decline in these years (which is not likely since projected prison populations are increasing for most of the affected states), the growth in state prison and correctional institution populations reflected in the above number is a conservative estimate of future trends.

The following table summarizes projected state prison and correctional institution populations, the percent change in 1983 populations, and percent change year-to-year (annual growth rate) in populations. A more detailed presentation by state of the data obtained from the 50 states on their projections of future inmate populations is provided in table S-1 on pages 46 to 59 in appendix VII.

Year	Inmate population	Percent change in 1983 population	Percent change year-to-year in population
1983	391,597	-	-
1984	424,319	+ 8.4	+8.4
1985	449,224	+14.7	+5.9
1986	468,611	+19.7	+4.3
1987	487,512	+24.5	+4.0
1988	502,170	+28.2	+3.0
1989	515,768	+31.7	+2.7
1990	528,193	+34.9	+2.4

Methods the states employed in projecting future state prison and correctional institution populations are identified and discussed on pages 39 to 41 in appendix VI.

PRISON AND CORRECTIONAL INSTITUTION CAPACITIES-1983 THROUGH 1990

FEDERAL PRISON SYSTEM

In fiscal year 1983 the Federal Prison System consisted of 43 institutions ranging from minimum security camps to maximum security penitentiaries, and had a total physical design or rated capacity of 23,936 inmates. Table FPS-2 on pages 61 to 63 in appendix VII provides a breakdown by BOP region, of the physical design or "rated" capacities and security level designations of Federal Prison System facilities at the end of fiscal year 1983.

Approved capacity increases

Based upon approved new construction or expansion projects ongoing or planned, BOP estimates that the physical design or rated institutional capacity of the Federal Prison System will increase by 3,188 prison bedspaces (from 23,936 to 27,124), between fiscal year 1983 and the end of fiscal year 1988. This will represent a 13.3 percent increase in rated capacity.

The following table provides summary information, by region, on the number of additional inmates that are expected to be housed upon completion of ongoing and planned new prison construction, expansion, and renovation projects that have been approved and funded through fiscal year 1984, total rated capacity upon completion, and capital costs of projects. Table FPS-3 on pages 65 to 73 in appendix VII provides additional information on new prison construction, expansion and renovation projects, by facility, for each BOP region.

SUMMARY OF APPROVED INCREASES IN CAPACITY
FOR THE FEDERAL PRISON SYSTEM

Existing Capacity - December 1983		Capacity Increases Approved Through Fiscal Year 1984		
BOP Region	Current rated capacity	Capacity added in bedspaces (additional number of inmates housed)	Total rated capacity on completion	Capital[a] costs (000)
Northeast	4,967	1,113	6,080	$ 72,400
Southeast	5,744	(51)	5,693	52,280
North Central	5,456	716	6,172	35,954
South Central	3,773	298	4,071	4,250
Western	3,996	1,112	5,108	65,060
Total	23,936	3,188	27,124	$229,944[b]

[a] In 1983 constant dollars

[b] Includes $55,450,000 to support renovation work and $174,494,000 for additional capacity

Increases in rated capacity between fiscal year 1983 and fiscal year 1988 will be greatest for security level 3 institutions which are generally considered medium security facilities. The rated capacity of these facilities will increase from 2,706 inmate bedspaces in fiscal year 1983 to 3,806 inmate bedspaces in fiscal year 1988, a gain of 1,100 or 40.7 percent. The rated capacity of security level 2 (minimum to medium security) institutions or facilities will increase by 25.3 percent during this period from 1,948 to 2,441 inmate bedspaces. Federal Prison System facilities designated for federal offenders serving comparatively short sentences or being held in detention or awaiting court processing (such as Metropolitan Correctional Centers) will gain 514 new bedspaces by fiscal year 1988, an increase of 23.4 percent over fiscal year 1983 rated capacity.

The table below shows the changes in rated capacity, by security level, for the Federal Prison System between fiscal year 1983 and fiscal year 1988, and capital costs for approved increases in rated capacity.

BOP security level designation	Rated capacity December 1983	Number of additional inmate bedspaces	Total rated capacity upon completion	Capital costs in 1983 dollars (000)
SL-1	5,557	766	6,323	$ 11,140
SL-2	1,948	493	2,441	8,858
SL-3	2,706	1,100	3,806	62,120
SL-4	3,311	670	3,981	39,780
SL-5 & 6	3,516	36	3,552	22,320
SL-A[a]	2,201	514	2,715	40,350
Other-A[b]	4,697	(391)	4,306	45,376
Total	23,936	3,188	27,124	$229,944

[a] Court processing or short sentence facilities.

[b] Federal Youth Correction Act, Springfield Medical Center, Butner Mental Health and Research, and Atlanta-INS Detainees.

DISTRICT OF COLUMBIA

In fiscal year 1983 District of Columbia Department of Corrections facilities had a total rated capacity of 4,899 bedspaces, including community correctional centers. The capacity of the District's institutional corrections system, 4,599 bedspaces in fiscal year 1983, has been constantly changing due to ongoing new construction, expansion, and renovation projects. Most of these projects are expected to be completed by the end of calendar year 1984, resulting in a total rated institutional capacity of 5,342 bedspaces. The District's Department of Corrections expects this rated capacity level to remain constant from fiscal year 1985 through fiscal year 1990 since no other approved increases in rated capacity are planned.

Current capacity

The following table shows the rated capacities in fiscal year 1983, by location.

Location	Rated capacity (bedspaces)
Detention Facility	1,355
Lorton Prison Complex	3,244
Community Corrections Centers	300[a]
Total	4,899

[a]Although the community corrections centers are not prisons or correctional institutions, they are a source of inmate living space for prisoners who meet the District's eligibility criteria and are counted by the District Department of Corrections as part of the District's correctional system capacity.

The Department of Corrections does not distinguish between physical design capacity and maximum allowable capacity for some of their facilities. The major exception is the Detention Facility. It had a physical design or rated capacity of 1,355 inmate living spaces and a court-ordered maximum allowable capacity of 1,448 inmate living spaces in fiscal year 1983. The primary reason for the difference between physical design and maximum allowable capacities is that court-ordered capacity ceilings have been imposed which restrict the number of inmates the District is allowed to house at four Department of Correction's facilities. As a result, 3,214 of the 4,899 available fiscal year 1983 inmate living spaces (or 66 percent) are set by court order.

Court ordered capacity ceilings apply to the following District facilities:

Facility	Number of inmate living spaces
Detention Facility	1,448
Central	1,166
Youth Center 1	350
Youth Center 2	250

Approved capacity increases

The rated capacity of the District's institutional corrections system at the end of calendar year 1984 will be 5,342 inmate living spaces, up 16.1 percent from 1983 capacity levels. These increases will occur at the facilities shown in the table below.

Facility	Number of inmate living spaces added
Detention Facility	93
Occoquan II	300
Occoquan III	250
Minimum (new)	100
Total	743

The change in the number of inmate living spaces at the Detention Facility is to result from a reallocation of existing space. Capacity increases at Occoquan II and III are realized by retrofitting the former Rehabilitation Center for Alcoholics located at the Lorton Prison Complex. The major new prison construction project is the new minimum security facility which will replace the current minimum security facility (old minimum) which, in turn, will be converted for use as a medium security facility designated as Occoquan III. This will result in a net increase of 100 minimum security inmate living spaces.

Comparisons of current capacity and approved increases for each of the District of Columbia Department of Corrections facilities are presented in tables DC-1 and DC-2 on pages 74 to 76 in appendix VII.

THE 50 STATES

In the survey questionnaire sent to 50 directors of state departments of correction, we asked for information on physical design or rated capacity and maximum allowable capacity of state prisons and correctional institutions as of September 30, 1983 and projections of capacities for the years ending September 30, 1984 through 1990. Some states operate detention facilities as well as institutions for sentenced offenders and did not distinguish among these facilities in the data provided. As with projections of future state inmate populations, for some states data were not available on projections of future state prison and correctional institution capacities for all years. Also, three states did not provide information on physical design or rated capacity and twenty-three states do not distinguish between physical design (or rated) and maximum allowable capacity.

In conducting telephone followup interviews we were informed of the complexity of defining prison and correctional institution capacity given the many different types of correctional facilities and the fluid nature of changes in capacity that occur over as short a period as 2 to 3 months. Many states have construction or expansion projects underway or planned that may result in different future capacity levels depending on whether the unit of analysis is bedspaces, numbers of inmates who could be housed, or numbers of inmate living spaces. Some states were reluctant to estimate prison and correctional institution capacities in future years due to the uncertainties of approval and/or funding for new construction or expansion projects. In presenting the data provided to us by the states in table S-2 on page 77 of appendix VII we have noted which states did not provide information on projected prison and correctional institution capacities in each year 1984 through 1990 with the designation NA for "not available".

If we were to summarize the data provided by the states without information on capacities (for the years such data were not available,) the resulting sum would likely be an underestimate of state prison and correctional institution capacities. In analyzing the data, we used the last yearly figure for capacity given and carried this number forward for those years for which data was not provided. Unless future state prison and correctional institution capacities decline in these years (which is unlikely), the last yearly capacity level provided was considered to remain constant into the future. For purposes of our analysis, for the three states which did not provide data on physical design or rated capacity but did provide data on maximum allowable capacity we used these data to permit summarization and to estimate nationwide trends.

Physical design or rated capacity

On September 30, 1983 the number of inmates who could be housed based on the physical design or rated capacities of state prisons and correctional institutions was approximately 332,444. The number of inmates who could be housed based on projected changes in physical design or rated capacity by 1990 is approximately 419,869, an increase of 87,425 (or 26.3 percent) above 1983 physical design or rated capacity levels.

The following table provides a summary of state prisons and correctional institutions physical design or rated capacities for the 50 states for the year ending September 30,1983, and projected capacities for the years 1984 through 1990.

Year	Physical design or rated capacity	Percent change in 1983 capacity	Percent change in capacity year-to-year
1983	332,444	-	-
1984	358,802	+ 7.9	+7.9
1985	383,677	+15.4	+6.9
1986	399,144	+20.1	+4.0
1987	410,291	+23.4	+2.8
1988	412,767	+24.2	+1.0
1989	414,073	+24.6	+0.3
1990	419,869	+26.3	+1.4

Tables S-2 and S-3 (on pages 77 and 78 of appendix VII), provide information on physical design or rated capacities of state prisons and correctional institutions, by state.

Maximum allowable capacity

Twenty-seven states provided figures on maximum allowable capacities of their prisons and correctional institutions. Twenty-three other states do not distinguish between physical design or rated capacity and maximum allowable capacity. Because of incomplete data on maximum allowable capacity for each state no projection of future capacity levels using this measure was made. (See table S-4 on page 79 in appendix VII for information on maximum allowable capacities of state prisons and correctional institutions, by state.)

COMPARISONS OF PRISON AND CORRECTIONAL INSTITUTION POPULATIONS AND CAPACITIES

One measure of prison overcrowding is the difference between the number of inmates who are to be housed in prisons and correctional institutions and the number of inmate bedspaces available based on physical design or rated capacities of these facilities. The number of prisoners in excess of rated capacity or the deficit in prison bedspace, is an indictor of prison overcrowding. To determine the extent of prison overcrowding in the nation's prisons and correctional institutions we compared the number of inmates incarcerated on September 30, 1983 to the physical design or rated capacity of federal, District of Columbia, and state institutions on that date. Next we compared projected prison and correctional institution populations to projected physical design or rated capacity for the years 1984 through 1990 to determine whether current conditions of prison overcrowding are likely to continue through the end of the decade.

FEDERAL PRISON SYSTEM

The average daily inmate population of the Federal Prison System in fiscal year 1983 exceeded the system's rated capacity of 23,936 by 24.2 percent and the projected average daily inmate population of the Federal Prison System is estimated to exceed rated capacity of 27,124 by 40.0 percent in fiscal year 1990, based on current and approved increases in capacity. A comparison of BOP's projections of average daily prison populations for fiscal years 1983, 1988 and 1990 and projected rated capacity levels for the Federal Prison System during these years, indicates that the deficit in the number of available prison bedspaces in the Federal Prison System was 5,782 in fiscal year 1983 and is projected to be 8,058 in fiscal year 1988 and 10,853 in fiscal year 1990.

Additional increases in capacity to house projected populations

We asked BOP to provide us with estimates of what additional prison construction or expansion would be needed to house projected future Federal Prison System inmate populations through fiscal year 1990 and eliminate overcrowding if no alternatives to increasing the rated capacity of the Federal Prison System were to be developed and implemented. In response, BOP estimated that if it had to resort to increasing rated capacity to accommodate a projected inmate population of 35,182 in fiscal year 1988, it would add six new housing units at existing facilities, acquire six new minimum security federal prison camps, and construct eight new federal correctional institutions at a total estimated capital cost of $310 million in current 1983 dollars. This would result in adding 7,564 inmate bedspaces to achieve a rated capacity of 34,688 in fiscal year 1988.

BOP urged extreme caution in the use of the information it provided since "it does not, in any way, represent future facilities development plans of the BOP" because...

--Inmate population projections are revised on an annual basis.

--While the BOP would ideally prefer to have its inmate population equal the system's rated capacity, the reality of fiscal restraint precludes this option. Although BOP considers the current overcrowding rate of 28 percent to be excessive, there are lower overcrowding rates that are acceptable and under which the BOP will continue to insure the safe and humane incarceration of federal offenders.

--The construction of additional facilities is always the course of last resort in order to reduce overcrowding. The BOP has and will continue to utilize other techniques such as increasing our community treatment center and contract detention programs in order to reduce institution based population.

Table FPS-4 on pages 82 to 86 in appendix VII provides information on BOP's estimates of what additional increases to the Federal Prison System's rated capacity would be needed in fiscal year 1988 to house projected future federal inmate populations if no alternatives to increasing rated prison capacity are developed and implemented.

Based on these estimates, the projected number of Federal Prison System inmates in fiscal year 1988 would exceed rated capacity by 494 or 1.4 percent. However, if there were no further increases in rated prison capacity, the estimated number of inmates in fiscal year 1990 would exceed the rated capacity of the Federal Prison System by 3,289 inmates (or 9.5 percent.) Even if the rated capacity of the Federal Prison System were to be further increased (by 494 bedspaces) to house a projected fiscal year 1988 inmate population of 35,182, by fiscal year 1990 the projected inmate population (37,977) would exceed this rated capacity level by 2,795 inmates (or 7.9 percent).

Further comparisons of projected federal inmate populations and rated capacity levels, assuming different patterns of new construction or expansion, are provided in table FPS-5 on pages 87 to 89 in appendix VII.

DISTRICT OF COLUMBIA

The average daily inmate population of District of Columbia institutions exceeded rated capacity by 11.4 percent in fiscal year 1983. And projected average daily inmate populations of the District of Columbia's institutional correction system are estimated to exceed rated capacity by 10.4 percent in fiscal year 1990. We made a similar comparison of the District of Columbia Department of Correction's projections of average daily incarcerated populations for fiscal years 1983 through 1990 and projected increases in rated institutional capacities during these years. In fiscal year 1983, the District of Columbia's average daily institutional inmate population (of 5,125) exceeded its fiscal year 1983 rated capacity(of 4,599) by 526 inmates or 11.4 percent.

Approved new prison construction and expansion projects are expected to increase the rated capacity of District Department of Correction's institutions by 743 additional inmate living spaces to attain a rated capacity of 5,342 by the end of 1984. Rated capacity will remain at this level through fiscal year 1990, unless further new prison construction or expansion projects are initiated.

The following table provides comparisons of fiscal year 1983 and projected fiscal year 1984-1990 inmate populations with estimates of rated institutional capacity levels for the District's Department of Correction during these years.

Fiscal year	Projected population	Projected capacity	Overcrowding	Percent overcrowded
1983	5,125	4,599	526	11.4
1984	5,468	5,342	126	2.4
1985	5,708	5,342	366	6.8
1986	5,800	5,342	458	8.6
1987	5,900	5,342	558	10.4
1988	5,900	5,342	558	10.4
1989	5,900	5,342	558	10.4
1990	5,900	5,342	558	10.4

Additional increases in capacity to house projected populations

We asked the District's Department of Corrections to provide us with estimates of what additional prison construction or expansion would be needed to house the District's projected future inmate populations, if no alternatives to increasing the capacity of the District's institutional corrections system were to be developed and implemented. The District of Columbia Department of Corrections estimated it would need two additional medium security correctional institutions to house the District's projected 1990 inmate population. If built these additional facilities would increase the corrections system's rated institutional capacity to 5,942 inmate living spaces by the end of 1988 to house a projected inmate population of 5,900 from then on. However, current District correctional facility development plans through the end of the decade do not include any further increases in rated capacity above 5,342 inmate living spaces. This would represent a continuation of the District's current overcrowding rate of about 10%, unless alternatives to incarcerating increased numbers District prisoners are developed and implemented.

Based on these estimates, the projected number of incarcerated prisoners in the District's institutional corrections system would exceed the District's rated capacity of 5,742 by 158 inmates (or 2.8 percent) in fiscal year 1987. There would be a small surplus of 42 inmate living spaces in fiscal years 1988 through 1990. The following table provides a comparison of actual and projected future incarcerated populations and rated capacity levels for fiscal years 1983-1990 based on the addition of 400 new inmate living spaces in fiscal year 1987 and 200 more in fiscal year 1988.

Fiscal year	Projected population	Projected capacity	Overcrowding	Percent overcrowded
1983	5,125	4,599	526	11.4
1984	5,468	5,342	126	2.4
1985	5,708	5,342	366	6.8
1986	5,800	5,342	458	8.6
1987	5,900	5,742	158	2.8
1988	5,900	5,942	(42)	(0.1)
1989	5,900	5,942	(42)	(0.1)
1990	5,900	5,942	(42)	(0.1)

Estimates of capital and operating costs for approved and additional prison construction and expansion projects for the District are discussed on pages 27 to 29 in appendix V.

THE 50 STATES

The inmate population in state prisons and correctional institutions exceeded the rated capacities of these facilities by 17.8 percent on September 30, 1983. Projected inmate populations of prisons and correctional institutions of the 50 states are estimated to exceed their rated capacities by 25.8 percent on September 30, 1990. We made comparisons of actual and projected prison and correctional institution populations for the 50 states with their estimates of physical design or rated capacity for the years ending September 30,1983 through 1990. On September 30, 1983, total combined prison and state correctional institution populations (391,597) exceeded total rated capacity (332,444) by 59,153 inmates. By September 30 1990, the states project a total combined inmate population of 528,193, 108,324 inmates over their projected total combined rated capacity of 419,869.

The following table illustrates the projected deficit in state prison and correctional institution bedspaces and rates of prison overcrowding for the years ending September 30, 1983 through 1990.

Year ending Sept. 30	Projected populations	Projected capacity	Overcrowding	Percent overcrowded
1983	391,597	332,444	59,153	17.8
1984	424,319	358,802	65,517	18.3
1985	449,224	383,677	65,547	17.1
1986	468,611	399,144	69,467	17.4
1987	487,512	410,291	77,221	18.8
1988	502,170	412,767	89,403	21.6
1989	515,768	414,073	101,695	24.5
1990	528,193	419,869	108,324	25.8

A detailed breakdown of projected prison and correctional institution bedspace deficits or surpluses for each state is provided in table S-5 on page 80 in appendix VII.

Additional increases in capacity to house projected populations

Based on the data provided by the 50 states, we estimate physical design or rated capacities of state prisons and correctional institutions would have to increase by about 32.6 percent (or 108,324 additional inmate bedspaces), in 1990 to house projected increases in inmate population, if no alternatives to increasing capacity were developed and implemented. In the preceeding table the deficit column shows the number of additional prison bedspaces, beyond those already anticipated, that would have to be available each year to house projected increases in state prison and correctional institution population for the years 1984 through 1990.

COST ESTIMATES OF INCREASING PRISON AND CORRECTIONAL INSTITUTION CAPACITIES'

FEDERAL PRISON SYSTEM

The Bureau of Prisons has 23 approved projects, planned or underway, to expand existing correctional facilities, acquire or build new ones, and to renovate some older facilities so they may continue to be utilized. The total capital cost of these projects is $229,944,000 of which about $55.5 million is allocated to support renovation work at existing facilities. The remainder, approximately $174.5 million, will support new prison construction or expansion efforts that will enable the Federal Prison System to achieve a rated capacity of 27,124 and house an additional 3,188 inmates in fiscal year 1988.

The following table compares the rated capacity of the Federal Prison System in fiscal years 1983 and 1988 .

Fiscal year	Number of facilities	Rated capacity
1983	43	23,936
1988 Increase	4	3,188
1988 Total	47	27,124

Estimated costs to house projected future Federal Prison System inmate populations

BOP estimates that it would cost approximately $310 million to increase the rated capacity of the Federal Prison System to 34,688, by adding 7,564 bedspaces.[1] This represents an average per bed capital cost of $40,983.61.

We compared average per bed costs for approved construction and expansion projects ($54,735) with average per bed costs based on BOP's estimate of costs to add 7,564 more bedspaces ($40,984). We note that BOP's estimated average per bed costs of future possible new prison construction or expansion projects is $13,751 lower than BOP's current capital cost experience with ongoing and planned projects.

If one uses average per bed construction costs based on BOP's current cost experience, capital costs to further increase the rated capacity of the Federal Prison System to 34,688 by adding 7,564 bedspaces would be $414 million (in 1983 constant dollars).

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[1] In fiscal year 1983 constant dollars.

Table FPS-5 on pages 87 to 89 of appendix VII, compares different estimates of capital construction costs to increase the rated capacity of the Federal Prison System to house projected inmate populations and the overcrowding rates that would result.

DISTRICT OF COLUMBIA

The District estimates that current approved prison construction and expansion projects at the Lorton Prison Complex will provide 743 additional inmate living spaces system wide, at a cost of approximately $12.6 million. The following table provides a breakdown of funding for approved new construction or expansion projects.

Facility	Number of inmates living spaces to be added	Scheduled activation date	Capital costs (000)	Source of Funding
Dentention Facility	93[a]	10/83	-0-	NA
New minimum security institution	100[b]	10/84	$ 5,191	FY 1984
Occoquan II	300[c]	06/84	2,443	FY 1983
			2,553.6	FY 1985 (Request)
Occoquan III	250	04/84	1,710	FY 1984
			746.7	FY 1985 (Request)
Total	743		$12,644.3	

[a] The Detention Facility had a rated capacity of 1355 inmate living spaces in 1983; the D.C. Department of Correction is establishing a new rated capacity level of 1,448 in FY 1984 which does not involve any major new construction or expansion work.

[b] The total rated capacity of the new minimum security facility will be 400. Since the old minimum security which housed 300 inmates is to be converted for use a medium security facility for adult misdemeanants (designated Occoquan III), the net increase of minimum security inmate living spaces is 100.

[c] The total rated capacity of Occoquan II will be 450 inmate living spaces upon completion of all construction work. At the end of 1983, 150 inmates were being housed in portions of Occoquan II that had been completed to the point that a modest portion of the facility could be used to house primarily sentenced adult misdemeanor offenders.

The Department of Corrections estimates additional operating costs that will accompany approved capacity increases to be about $9.2 million in fiscal year 1984 dollars, resulting in total annual operating costs of $46.4 million for the Lorton Prison Complex.

Cost of further increases in rated capacity

We asked District officials what it would cost to increase the rated capacity of the District's institutional corrections system to house the projected increase in future prisoner populations and eliminate overcrowding (assuming there were no alternatives to increasing prison capacity developed and implemented by the District of Columbia.) The Department of Corrections estimated capital costs of $59.9 million to build two new correctional facilities--one 400 bed institution and one 200 bed institution. (See table below.)

Facility	Rated capacity	Estimated Activation date if decided to build	Estimated capital cost[a] (000)	Cost per bed (000)
Medium Security	400	1987	$38,480	$ 96.2
Medium Security	200	1988	21,400	107
Total	600		$59,880	

[a]Adjusted by annual inflation factor of 11.29 percent.

Projected annual operating costs for an additional 600 inmate living spaces were estimated by the District at approximately $8.7 million in fiscal year 1984 dollars. This would increase annual operating costs to $55.1 million (in fiscal year 1984 dollars) to house about 4,000 district inmates in secure facilities designed for sentenced prisoners.

THE 50 STATES

To develop estimates of how much would it cost to increase physical design or rated capacities to house projected future state inmate populations, if no alternatives to increasing prison and correctional institution capacity were developed and implemented, we applied national average per bed cost data for different security levels to projected future deficits in state prison and correctional institution bedspaces.

First, one must assume that the security or custody level requirements of future state prison and correctional institution populations are likely to be similar to historical patterns that have been monitored by the staff of the American Correctional Association--10 percent will be housed in maximum security facilities, 60 percent in medium security facilities and 30 percent in minimum security facilities.

As we previously pointed out, the projected deficit in state prison and correctional institution bedspace in 1990 is 108,324. Using national average per bed costs by custody or security level applied to the proportion of future inmate populations housed in such security levels, we estimate capital costs at just over $4.7 billion, and additional operating costs of $1.7 billion.

The following table shows the estimated capital and operating costs to increase the physical design or rated capacity of state prison and correctional institution systems to house projected 1990 state inmate populations.

Security level	Percent of total	Number of additional bedspaces needed	National average per bed capital costs[a]	Capital costs[a] (000)	Operating costs[b] (000)
Minimum	30	32,498	$25,171	$ 818,008	$ 514,108
Medium	60	64,995	49,292	3,203,734	1,028,806
Maximum	10	10,831	64,842	702,304	171,444
Total	100	108,324		$4,724,046	$1,714,358

[a] in 1983 constant dollars

[b] in 1982 constant dollars; operating costs estimates were derived by applying the 1982 national average operating costs of $15,829 per inmate to the number of additional inmates projected in 1990. (Source: George and Camille Camp, The Corrections Yearbook, 1983.)

ASSUMPTIONS AND METHODS USED IN PROJECTING PRISON AND CORRECTIONAL INSTITUTION POPULATIONS AND CAPACITIES

Forecasting future prison or correctional institution populations is an art, not yet a science. Although each year new developments in the state-of-the-art produce advances over previous methods, increasing the validity and reliability of prison population projections made beyond one or two years remains an elusive goal.

We reviewed recent literature on the subject and interviewed three recognized national experts in this field to identify criteria and standards that distinguish between poor and better methods of predicting the size, composition and future trends in populations. There does not seem to be any one method of population projection that will yield accurate, valid, and reliable forecasts of future populations that can be adapted to fit different criminal justice settings.

FEDERAL PRISON SYSTEM

The Bureau of Prisons routinely reviews population trends and projects future federal inmate population levels to assist it in determining future facility requirements. However, BOP does not place a high degree of confidence in the results of such projection efforts. As BOP pointed out in its July 1982 report on the subject prepared for the Office of Management and Budget:

> "The 'state of the art' for predicting prison populations is still in its infancy and accurate and reliable methodologies simply do not exist. Our review of numerous prison population projection studies conducted by national experts reveals, with the wisdom of hindsight, that their projections have continually been in error."

Inability to anticipate and account for the effects of changes in crime control and justice system policies, law, public sentiment, and the economy were cited by BOP officials as confounding accurate projection. If any of these factors are not accounted for and subsequently intervene, projections can be dismally inaccurate. To help compensate for potential error associated with any one method of forecasting future prison populations, BOP uses an "amalgamated forecast" which is an average of the independent results obtained from six different methods. The table below summarizes the results BOP obtained using six methods in its official amalgamated forecast of future average daily prison populations from fiscal year 1984 through fiscal year 1988 and unofficial estimates for fiscal years 1989 and 1990.

AMALGAMATED FORECAST

METHOD	TOTAL POPULATION						
	1984	1985	1986	1987	1988	1989	1990
Simple Trend Extrapolation	33,270	36,317	39,664	43,275	47,239	51,556	56,290
Linear Regression	31,896	33,686	35,477	37,267	39,058	40,848	42,639
Unemployment	31,324	31,877	31,531	30,285	29,317	28,487	27,587
Capacity Model	30,478	31,410	31,788	32,618	33,698	36,057	37,131
Input/Output Model	27,287	27,503	27,719	27,933	28,145	28,353	38,556
Federal Criminal Justice System Activity Model (Multiple Regression)	30,128	30,942	31,794	32,692	33,634	34,622	35,659
TOTAL	184,383	191,735	197,953	204,071	211,091	219,933	227,862
Amalgamated Forecast (Average)	30,731	31,956	32,992	34,012	35,182	36,656	37,977

In its forecasts BOP makes a variety of assumptions about (a) past and current trends in prison population growth or decline, (b) continuity of historic relationships between changes in prison populations and a number of other factors such as unemployment and prison capacity, (c) changes in law enforcement productivity as measured by the number of convictions for offenses that may result in prison sentences; and (d) the relative stability of punishment policies, relationships between criminal justice agencies, and a wide range of social and economic forces that influence law enforcement and justice system workloads. For example, BOP assumed that the size of the alien detention population (mostly Cuban prisoners) and the unsentenced population housed in BOP facilities will remain constant in the future. Thus, to account for detainees and other unsentenced populations, BOP added 2,786 to all estimates of its sentenced populations. BOP also assumed that there would be no further changes in Department of Justice law enforcement and prosecution policies, priorities and resources that could influence prison admissions and that lengths of stay will remain constant during the projection period.

Each of the six methods of projection used by BOP incorporates one or more of these underlying assumptions. Any changes in these underlying assumptions will alter the resulting projection for each method and the amalgamated forecast.

Simple trend extrapolation

In the first of six methods, BOP computed a simple trend-line extrapolation using a trend which assumes that the inmate population of the Federal Prison System will grow by 9.16 percent each year. This method projects an average daily inmate population of 47,239 in fiscal year 1988, and, by extending this method two additional years, unofficial estimates suggest an average daily inmate population of 56,290 in fiscal year 1990. The following table shows the average daily inmate population that would be predicted on the basis of simple trend extrapolation using 9.16 percent.

Year	Sentenced	Total
1984	30,484	33,270
1985	33,531	36,317
1986	36,858	39,644
1987	40,489	43,275
1988	44,453	47,239
1989	48,780	51,566
1990	53,504	56,290

Linear regression model

This method assumes a linear growth rate in future inmate populations can be estimated as being equal to the average trend in prior years, given that events affecting prior trends will remain constant into the future. BOP used the preceding four-year (1980-1983) trend in inmate populations to compute a linear estimate of average yearly growth at 1,790.5 additional inmates per year, resulting in a projected average daily inmate population of 39,058 in fiscal year 1988 and 42,639 in fiscal year 1990. The following table shows the average daily inmate populations that would be predicted on the basis of average trends over the four year period 1980-1983.

Year	Sentenced	Total
1984	29,110	31,896
1985	30,900	33,686
1986	32,691	35,477
1987	34,481	37,267
1988	36,272	39,058
1989	38,062	40,848
1990	39,853	42,639

Unemployment rates and prison population regression model

Use of unemployment rates as a predictor of future prison populations is predicated on the assumption that the observed historical relationship between changes in national unemployment rates and changes in the size of inmate populations in the Federal Prison System will continue into the future. BOP uses an average of two forecasts of future unemployment rates in the 1980's; one by the Congressional Budget Office (CBO) and one by the Office of Management and Budget (OMB). Using data going back 17 years (1967-1983), BOP documented the relationship between national unemployment rates and changes in prison populations and constructed a prediction model to project the size of future inmate populations of the Federal Prison System given accurate forecasts of future national unemployment rates.

By using actual unemployment rates for 1982 and 1983 in combination with the average of OMB's and CBO's forecasts of future unemployment rates from 1984 through 1988, BOP projects a Federal Prison System inmate population of 29,317 in fiscal year 1988 and 27,587 in fiscal year 1990.

The following table shows the average daily inmate population of the Federal Prison System for fiscal years 1984 through 1990 projected on the basis of BOP's averaging OMB's and CBO's forecasts of future national unemployment rates.

Year	OMB	CBO	Average	Total
1984	28,538	28,538	28,538	31,324
1985	29,091	29,091	29,091	31,877
1986	28,814	28,676	28,745	31,531
1987	27,430	27,569	27,500	30,286
1988	26,323	26,739	26,531	29,317
1989	25,216	26,185	25,701	28,487
1990	24,109	25,493	24,801	27,587

Capacity model

Based upon a model developed by ABT Associates in the late 1970's, BOP uses anticipated rated capacity of the Federal Prison System as a predictor of the size of future inmate populations. The assumption which underlies this method of projecting future prison populations is that "if a bed is empty the courts will fill it." BOP's model assumes that each time available rated capacity of the Federal Prison System is increased, the inmate population will exceed that new rated capacity level by 30 percent within three years.

Using this method BOP projects an inmate population of 33,698 in fiscal year 1988, with an unofficial projection of 37,131 in fiscal year 1990.

The following table shows the average daily Federal Prison System inmate populations for fiscal years 1984 through 1990 based on BOP's assumption that population will exceed rated capacity by 30 percent within three years following an increase in rated capacity.

Year	Sentenced	Total
1983	27,692	30,478
1984	27,692	30,478
1985	27,885	30,671
1986	28,443	31,229
1987	29,855	32,641
1988	32,382	35,168
1989	33,271	36,057
1990	34,344	37,130

Input/output model

A fifth population projection method used by BOP is based on a model which estimates future prison populations based on trends in commitments and projected lengths of stay. BOP modified an approach used by the State of Colorado (Colorado Commitment Cohort model) using available federal prison population data. BOP's model assumes that the number of future committments to the Federal Prison System will be equal to a ratio of some average number of commitments per 100,000 civilian population. BOP used 7.27 per 100,000 as an average ratio of commitments to census estimates of civilian non institutionalized population, and applied this ratio to census projections for fiscal years 1984 through 1991, (adjusted for the 1983 census estimate of U.S. population of 233,432,000.) The average length of stay was established at a constant of 16.3 months.

Using this method, BOP projected a fiscal year 1988 inmate population of 28,145 and an unofficial estimate of 28,556 for fiscal year 1990 using this method. (See table below).

Year	Sentenced	Total[a]
1984	23,210	27,287
1985	23,426	27,503
1986	23,642	27,719
1987	23,856	27,933
1988	24,068	28,145
1989	24,276	28,353
1990	24,479	28,556

[a] This column includes 2,786 detainees and other unsentenced prisoners and 1,291 Cuban illegal alien detainees of the Immigration and Naturalization Service.

Federal criminal justice system activity model

The sixth, and final, population projection method uses Drug Enforcement Administration (DEA) and Federal Bureau of Investigation (FBI) conviction rates as predictors of future Federal Prison System inmate populations in a multiple linear regression model. Estimates of future FBI and DEA conviction rates are used to project future federal inmate populations. In using this method to project prison populations through fiscal year 1988, BOP assumed that FBI and DEA convictions will increase five percent each year and that the effect of such increases in convictions will be experienced one year later for FBI convictions and two years later for DEA convictions respectively, in changes in Federal Prison System inmate populations.

BOP officially projects a fiscal year 1988 inmate population of 33,632 and developed an unofficial estimate of 35,659 in fiscal year 1990 using this method.

The following table shows projected average daily Federal Prison System inmate populations for fiscal years 1984-1990, using BOP's assumption of a five percent yearly growth rate in FBI and DEA convictions.

Year	Sentenced	Total[a]
1984	27,341	30,127
1985	28,155	30,941
1986	29,009	31,795
1987	29,905	32,691
1988	30,846	33,632
1989	31,835	34,621
1990	32,873	35,659

[a] This column includes 2,786 detainees and other unsentenced prisoners.

Assumptions BOP made in certain models are in some cases, contradictory to assumptions made in others. The simple trend extrapolation BOP employed in one of their six methods, for example, assumes a yearly prison population increase of 9.16 percent whereas BOP's application of a univariate linear regression model relies on a different trend--an increase of 15.2 percent the first year gradually declining to a 4.4 percent rate of increase in 1990. Averaging the various results would tend to blur such decrepancies.

DISTRICT OF COLUMBIA

The District of Columbia Department of Corrections develops projections for a three year period using a model which utilizes various trends in the District's criminal justice system activities to project future prison populations. The District's Department of Corrections extends this projection an additional four years in developing its "Capital Planning Estimates". These latter projections are based on a number of assumptions which, if they were to change, could impact future inmate populations of the District of Columbia.

Projection methodology

The District's Department of Corrections developed projections of average daily inmate populations through fiscal year 1985 using a multiple linear regression model. This model utilizes 27 criminal justice system indicators based on their historical relationship with detention and sentenced incarcerated populations. A similar method is used to develop projections of future parole populations.

Multiple regression used as a method of prediction examines historical trends in a number indicators or independent variables simultaneously to determine their relationship to a dependent variable, here, prison population. Statistical analyses determine which criminal justice system indicators are the most sensitive predictors. Once these indicators, are identified, future trends utilizing these indicators are used in a multiple linear regression model. Table DC-3 on page 90 in appendix VII provides a list of factors considered by the District in developing their projections of future inmate populations.

After estimated future values for these indicators or predictors are established, the multiple linear regression model is applied again to compute projected future inmate populations for the District's Department of Corrections. A verification of the projections is performed by comparing prior year projected populations with actual populations. Any variations are analyzed and the projections are adjusted accordingly.

In addition, major changes that may affect the District's criminal justice system policies or practices that impact on the corrections component are considered to determine their potential impact on future populations. For example, when the latest projections were prepared, the District performed an analysis of the impact of the District's new Mandatory Minimum Sentencing Act, which became effective July 1,1983. Based on its analysis, the District increased its projections of the number of future sentenced incarcerated prisoners by 285 inmates.

Five factors were found to account for 90 percent of the variance in detention populations.

--Number of new commitments is the strongest indicator of future detention population. Projections based on this indicator predict an upward trend which is estimated to continue for the next three years.

--Misdemeanor cases filed are expected to increase as a continuation of the previous two year trend.

--Felony guilty dispositions are expected to increase due to increased arrests and felony guilty pleas.

--Misdemeanor guilty dispositions are expected to increase as they have for the last two years.

--Number of cases detained in pre-trial status is projected to increase due to more restrictive pre-trial detention and pre-trial release practices.

Five factors also were found to account for a significant portion of the variance in sentenced incarcerated populations. These factors, and related assumptions are listed below in order of their significance.

--Detention population is the single most important predictor of the size of future sentenced incarcerated populations.

--Number of parole grants is projected to increase gradually-on the basis of recent quarterly trends.

--New commitments to detention, lagged one year, are projected to increase moderately, but will have a very slight effect on population.

--Number of parole revocations is also projected to increase gradually over the next three years.

--Number of sentences imposed, lagged one year, has increased and will be influenced by changes in average sentence lengths and number of sentences imposed.

Capital planning estimate

After projections are developed, the District's Department of Corrections prepares capital planning estimates with long-range population projections to estimate the size of future inmate populations for the out years and provide sufficient lead time to develop plans to house these populations through additional construction, or by other means. Capital planning estimates are adjusted to account for other influences based on the judgement, experiences, and knowledge of Department of Corrections officials.

From 1978 to 1981, several District Department of Corrections officials participated in developing capital planning estimates, including estimations of the long term impact of policy changes and civilian non institutionalized population trends. Beginning in 1982, capital planning estimates have been prepared by the District Department of Correction's Office of Planning and Program Analysis.

Assumptions used in projecting population

In addition to the assumptions made through the use of the multiple regression model, the District uses the following general assumptions in projecting future inmate populations:

--The Federal Prison System will continue to house between 17 and 18 percent of the District's non-federal prisoner population.

--The District's Department of Corrections will continue to house both sentenced and unsentenced prisoners at the Detention Facility and at Lorton Prison Complex facilities.

--The rated or operational capacity of the District's institutional facilities will not increase beyond the capacity levels planned for fiscal year 1984, when currently approved new prison construction and expansion projects are scheduled to be completed.

--The growth in the District's prisoner populations cannot continue indefinitely; it will level off in fiscal year 1987 and remain relatively constant through fiscal year 1990.

--The security/custody level requirements of future inmate populations will remain about the same in fiscal years 1984-1990.

--The physical location of facilities will remain unchanged and any additions to capacity would occur at the Lorton Prison Complex.

THE 50 STATES

We asked each state how their projections were developed. As can be seen in the table on the next page, just over one-half (52 percent) of the states do an analysis of institutional admissions and releases (sometimes referred to as "input/output" analysis), to forecast the probable number of future prison admissions and the probable lengths of stay for current and future inmates. Nineteen states (38 percent) perform a simple trend analysis based on past prison populations. Seventeen states (34 percent) simulate criminal justice system operating policies and/or practices to assess how current or future changes in such areas as sentencing and parole release decision making may affect future sentenced prisoner populations. Thirteen states (26 percent) rely on linear regression techniques which involve using some factor (such as unemployment rates) which tends to be correlated with changes in sentences to imprisonment when the effects are lagged 6 months to a year or more.

Twelve states (24 percent) employ multiple linear regression techniques which are similar to the method just described, but include several (two or more) factors that are predictive of changes in prison population. Ten states (20 percent) project future populations based on the anticipated physical design or rated capacity of their institutions at some future point in time. Two states reported deriving estimates of future populations through concensus statements. And eight states reported using methods other than those just described.

The following table summarizes the methods and the number of states which used them in projecting future state prison and correctional institution populations.

Prison population projection method	States which based their projections on this method	
	Number[a]	Percent
Simple trend analysis based on past populations	19	38
Linear regression	13	26
Multiple linear regression	12	24
Analysis of admissions and releases (input/output)	26	52
Simulation of criminal justice system operations, policies, and/or practices	17	34
Anticipated physical design or rated capacity	10	20
Consensus statements based on some method of pooling group-based opinions	2	4
Other	8	16

[a] Total number of responses exceeds 50 because 33 states reported using more than one method.

Note: See Table S-1, pages 46 to 59 , in appendix VII for notes concerning limitations of data by state.

DATA ON PRISON AND CORRECTIONAL INSTITUTION POPULATIONS, CAPACITIES, AND ESTIMATES OF COSTS TO INCREASE CAPACITY

The following tables provide additional information on actual and projected future prison and correctional institution populations, capacities, and estimates of capital costs to reduce prison overcrowding through new prison construction, expansion, and renovation. Data on the Federal Prison System are contained in tables FPS-1 through FPS-5. Data for the District of Columbia Department of Correction are presented in tables DC-1 through DC-3. Data for each of the 50 states are shown in tables S-1 through S-5.

ACTUAL AND PROJECTED PRISON AND CORRECTIONAL INSTITUTION POPULATIONS, 1983-1990

The first table shows the average daily inmate population of the Federal Prison System for fiscal year 1983, by security level and BOP facility.

TABLE FPS-1
AVERAGE DAILY INMATE POPULATION OF THE FEDERAL PRISON SYSTEM FY 1983

BOP security level and type of facility	Facility	Average daily population
SECURITY LEVEL 1		6,504
FPC	Allenwood	535
FPC	Big Spring	433
FPC	Boron	269
FPC	Danbury	99
FPC	Duluth	0
FPC	Eglin	635
FPC	El Reno	178
FCI	Ft. Worth(F)	223
FCI	Ft. Worth(M)	455
FPC	La Tuna	156
FPC	Leavenworth	348
FPC	Lewisburg	172
FCI	Lexington(F)	357
FCI	Lexington(M)	877
FPC	Lompoc	481
FPC	Marion	129
FPC	Montogmery	311
FPC	Petersburg	99
FPC	Safford	281
FPC	Terre Haute	296
FPC	Texarkana	168
SECURITY LEVEL 2		3,161
FCI	Danbury	764
FCI	La Tuna	593
FCI	Sandstone	547
FCI	Seagoville	476
FCI	Tallahassee	781
SECURITY LEVEL 3		3,811
FCI	Ashland	703
FCI	Milan	729
FCI	Otisville	558
FCI	Ray Brook	710
FCI	Terminal Island(F)	0
FCI	Terminal Island(M)	464
FCI	Texarkana	647

SECURITY LEVEL 4		4,404
FCI	Bastrop	440
FCI	El Reno	1,125
FCI	Memphis	591
FCI	Oxford	674
FCI	Talladega	661
USP	Terre Haute	913
SECURITY LEVEL 5&6		3,653
USP	Leavenworth	1,058
USP	Lewisburg	1,171
USP	Lompoc	1,057
USP	Marion (level 6)	367
ADMINISTRATIVE FACILITIES		8,185
COURT PROCESSING/SHORT SENTENCES:		3,253
FDC	Bastrop	141
INS	Chicago	27
MCC	Chicago(F)	13
MCC	Chicago(M)	345
FDC	Florence	68
FDC	Memphis	17
MCC	Miami	528
FDC	Milan	64
MCC	New York(F)	51
MCC	New York(M)	608
MCC	San Diego(F)	62
MCC	San Diego(M)	622
FDC	Talladega	27
FDC	Terminal Island	409
MCC	Tucson(F)	2
MCC	Tucson(M)	267
TOTAL OTHER		4,932
FCI	Alderson	546
FCI	Englewood	413
USP	Atlanta(CAD)	1,004
USP	Atlanta(DET)	462
GEN POP	Butner	49
MH	Butner	128
RES	Butner	141
FCI	Morgantown(F)	108
FCI	Morgantown(M)	292
SP UNT	Otisville	15
FCI	Petersburg	424
FCI	Pleasanton(F)	291
FCI	Pleasanton(M)	155
GEN POP	Springfield	351
HOSPITAL	Springfield	551

SUB TOTAL MALES	28,064
SUB TOTAL FEMALES	1,654
TOTAL ALL INSTITUTIONS	29,718

FCI=Federal Correctional Institution
FDC=Federal Detention Center
FPC=Federal Prison Camp
MCC=Metropolitan Correctional Center
USP=United States Prison
INS=Immigration and Naturalization Service Detention Facility
MN =Mental Health Unit
GEN POP=General Population
RES= Research Unit Population
SP UNT=Special Unit
HOSPITAL=Inmate patients at U.S. Medical Center for Federal Prisoner
CAD=Cadre of FPS inmates to assist in operating the facility
DET=INS Alien Detainees

Table S-1 provides data obtained from the 50 states on 1983 actual and projected 1984-1990 inmate populations of state prisons and correctional institutions, and on limitations of these data.

TABLE S-1 CURRENT AND PROJECTED INMATE POPULATIONS OF STATE PRISONS AND CORRECTIONAL INSTITUTIONS 1983-1990

Number of Inmates

STATE	1983	1984	1985	1986	1987	1988	1989	1990
ALABAMA	9681	10915	12208	13490	14772	16054	17336	18618
ALASKA	756	1309	1400	2104	2406	2700	N/A	N/A
ARIZONA	6713	7454	8615	9799	11056	12511	14031	15460
ARKANSAS	4631	4521	4747	4984	5233	5495	5769	6058
CALIFORNIA	38170	42340	47300	50010	53630	N/A	N/A	N/A
COLORADO	3461	3627	3434	3340	3349	3350	N/A	N/A
CONNECTICUT	3971	4132	4211	4732	4743	4739	4277	4173
DELAWARE	2152	2297	2137	2229	2321	2713	2905	3097
FLORIDA	26483	28000	28982	29703	30448	31268	32202	32997
GEORGIA	15462	15606	15744	16066	16626	17526	17906	18206
HAWAII	1494	1787	1936	2149	2247	2345	2444	2543
IDAHO	1085	1116	1176	1212	1308	1391	1486	1579
ILLINOIS	14726	17629	19280	21004	N/A	N/A	N/A	N/A
INDIANA	9260	10262	10913	N/A	N/A	N/A	N/A	N/A
IOWA	2687	2775	2900	3000	3000	3000	3000	3000
KANSAS	3451	3848	4214	4429	N/A	N/A	N/A	N/A
KENTUCKY	4637	4600	4862	5120	5374	5633	6000	N/A
LOUISIANA	12426	13921	15478	17034	18591	20148	21705	23262
MAINE	1039	1045	1113	1160	1197	N/A	N/A	N/A
MARYLAND	12027	12062	12695	13100	13359	13622	13762	13900
MASSACHUSETTS	4444	4626	5200	5440	5730	N/A	N/A	N/A
MICHIGAN	13124	12970	12840	13340	13840	13840	13840	13840
MINNESOTA	2126	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MISSISSIPPI	5461	5925	6625	7750	7575	8030	N/A	N/A
MISSOURI	7378	8040	8720	9413	9911	10432	10997	11448
MONTANA	947	953	958	952	940	975	969	892
NEBRASKA	1446	1466	1341	1312	1283	1255	1226	1201
NEVADA	3176	3238	3449	3821	4229	4623	4735	5089
NEW HAMPSHIRE	413	413	413	533	533	533	533	683
NEW JERSEY	10167	11729	12300	12800	13200	13400	13700	14000
NEW MEXICO	1961	2175	2318	2462	2604	2746	2888	3030
NEW YORK	30469	34116	34947	N/A	N/A	N/A	N/A	N/A
NORTH CAROLINA	16430	16400	16900	17400	18100	18900	19600	20000
NORTH DAKOTA	396	425	489	329	399	469	739	809
OHIO	17779	19000	19950	21500	23600	25800	27750	28500
OKLAHOMA	7272	7840	8940	10040	11140	12240	13340	14440
OREGON	3457	3148	3120	3040	2954	2954	3040	3120
PENNSYLVANIA	10443	11636	12260	12760	13260	13000	13500	13500
RHODE ISLAND	1080	1175	1273	1379	1494	1619	1754	1900
SOUTH CAROLINA	9848	11569	12177	12713	13243	13816	14443	14921
SOUTH DAKOTA	836	800	800	820	820	820	820	820
TENNESSEE	8274	8849	8391	8498	8734	8773	8813	8851
TEXAS	36348	40029	41721	41721	41721	41721	41721	41721
UTAH	1310	1454	1377	1730	1876	1941	2038	2134
VERMONT	374	387	387	387	387	387	387	657
VIRGINIA	9482	10761	10791	10966	11176	11404	11635	11731
WASHINGTON	3769	6488	7346	8071	8322	8958	9271	9637
WEST VIRGINIA	1288	1328	1408	1408	1368	1358	1408	1438
WISCONSIN	4726	4987	4988	5089	4971	4887	4483	N/A
WYOMING	793	935	1059	1183	1307	1431	1555	1679

Note: Please apply the following notes on limitations of data to this and all subsequent tables of state population and capacity (S-2 through S-5).

Alabama

Population

Figures include all inmates in state custody, including approximately 600 inmates in supervised non-residential restitution program and all inmates incarcerated out-of-state.

Capacity

Physical Design Capacity-Figures reflect all currently planned capacity increases. However, Alabama fully expects to further increase its prison system capacity by 1990.

The state is under court order not to exceed physical design capacity.

Alaska

Population

All figures are as of July 1 for each year. Figures include 180-200 inmates that are currently housed in Federal Prison System facilities. Alaska's goal is to return these inmates to in-state facilities by 1985.

Capacity

All capacity figures are as of July 1 for each year.

Arkansas

Population

Projections for 1984-1990 are as of December 31 for each year. Figures include sentenced offenders housed in work-release centers.

Capacity

Physical Design Capacity-Actual 1983 capacity is as of August 31. Projected 1984 capacity is as of December 31. Projected 1985 capacity is as of October 31. Projected 1986 capacity is as of July 31. 1987-1990 figures are not month-specific. Since Arkansas is currently under court order not to exceed physical design capacity, physical design and maximum allowable capacity are the same.

Arizona

Population

All figures are as of June 30 for each year.

Capacity

Capacity figures listed as physical design capacity are actually Arizona's "operational capacity" figures. Although not architecturaly determined as rated physical design capacity would be, this operational capacity is less than the actual number of inmates that have been and will be accommodated in state institutions.

Figures include all currently planned capacity increases. However, further capacity increases may be requested before 1990.

California

Capacity

Figures include all currently planned capacity increases. However, further capacity increases may be requested before 1990.

Colorado

Population

Figures include inmates temporarily off-grounds (in hospitals, for example) as well as escapees and sentenced prisoners being held in local jails until space becomes available in state prisons. Currently, over 200 prisoners are serving their sentences in local jails.

Connecticut

Population

All figures are average daily populations for each year and include short-sentenced inmates and pretrial detainees, since Connecticut has no local jails or prisons. Sentenced inmates represent, on the average, 77.5 percent of total number of inmates; the remaining 22.5 percent are unsentenced inmates.

Delaware

Population

Of the 2,152 persons held in Delaware facilities, 280 are designated as "supervised custody" inmates. Persons in detention status or serving short sentences of one year or less are also included in the total. The state has no local or county jail system; all persons incarcerated are held in state-run institutions.

Capacity

Figures shown are the total number of "beds in place." The state legislature has overturned Delaware's former use of physical design capacity ratings. Figures do not include a reserve capacity of 340 achieved through double-bunking, to be used only in emergencies. But if necessary, even more double-bunking would be done. Delaware is not currently under any court-ordered capacity limitations.

Florida

Population

Figures for 1984 through 1990 are as of June 30.

Capacity

Figures for 1985 through 1990 are as of July 1. The projected maximum allowable capacity for 1985 and subsequent years is set by court-order.

Georgia

Capacity

Projections of physical design capacity assume that typically accepted professional standards are applied to existing and future space and that all currently planned expansions are funded.

Estimates of maximum allowable capacity-assume that current levels of facility crowding will continue into the future for all additional expansions and that all currently planned expansions will be funded.

Hawaii

Capacity

Maximum allowable capacity figures include the use of temporary structures that Hawaii hopes to phase out as new permanent bedspace becomes on available. Thus figures for maximum allowable capacity are not provided beyond 1984.

Idaho

No notes

Illinois

Population

1986 figure is as of June 30.

Capacity

1986 figures are as of June 30. Figures reflect all currently planned capacity increases. However, further capacity increases may be requested before 1990.

Indiana

Capacity

Figures include a planned 700-bed institution to be added within the next five years. Further capacity increases may be planned for before 1990.

Iowa

Population

Prison populations are expected to level off due to the impact of Iowa's prison CAP law.

Kansas

Population

Figures for 1984 through 1986 are as of June 30.

Kentucky

Population

Figures for 1984 through 1989 are as of January 1. They represent "median" estimates; Kentucky also formulates "high" and "low" estimates, which were not provided.

Capacity

Physical design capacity figures reflect all currently planned capacity increases. However, further capacity increases may be planned for before 1990.

Louisiana

Capacity

The maximum allowable capacity is set by court-order and it takes into account physical design plus the court's own spatial standards. Data for physical design or rated capacity were not provided.

Maine

Capacity

Physical design capacity figures include capacity increases to result from construction of 184 new bedspaces between 1983 and 1987, with 1985 being the most likely date these additional bedspaces will be available for use. Further capacity increases are possible between 1985 and 1990, though no additional increases are currently planned.

Maryland

No notes

Massachusetts

Population

Figures for 1984 through 1987 are as of January 1.

Capacity

Physical design capacity figures represent Massachusetts' "rated" capacity, which is 90 percent of the "actual" capacity.

Maximum allowable capacity figures represent the state's "actual" capacity.

Michigan

Population

The Michigan Prison Overcrowding Emergency Powers Act limits prison populations to the rated capacities of the state's institutions. Hence Michigan's projected population matches its projected physical design capacity estimates.

Minnesota

Population

Minnesota did not provide population projections because it was in the process of developing new projections. Newly revised sentencing guidelines and parole policies have recently been put into effect which are aimed at significantly lowering future prison populations.

Capacity

Minnesota's current excess bedspace capacity is being used to house approximately 200 Wisconsin state prisoners and 20 federal detainees. No future capacity increases are planned.

Missouri

Population

Figures are daily averages for the period from July 1 through June 30 each year.

Mississippi

Population

All figures are as of June 30 for each year.

Capacity

Maximum allowable capacity figures are those levels set by federal court order. Mississippi reports that physical design capacity is not known. Figures are as of June 30 for each year.

Montana

Population and Capacity

Figures are as of December 31 for each year.

Nebraska

Population

Projections are for adult male incarcerated populations. Nebraska's small number of incarcerated adult females is not included. Projections are as of June 30 for each year.

New Hampshire

Capacity

Physical design capacity figures shown for 1986 through 1990 are predicated on the discontinued use of a 298 person old Main Cell Block. If the old Main Cell Block continues to be used, physical design capacity would be 654 instead of 526 for 1986-1989 and 894 instead of 646 for 1990. Maximum allowable capacities would also rise to 866 instead of 618 for 1986-1989 and 986 instead of 738 for 1990.

New Jersey

Population

The 1983 actual population figure of 10,167 includes 887 state sentenced offenders in county jails awaiting transfer to state facilities.

Capacity

Of the projected capacity from 1984 to 1987, approximately 700 bedspaces are in county institutions. Under a New Jersey state program, 14 counties have agreed to house state sentenced offenders in return for financial assistance.

New Mexico

Population

Figures shown for 1987 through 1990 are simple extrapolations based on a projected increase of 142 inmates per year. These figures, provided for GAO's use, are not as authoritative as the 1984-1986 figures developed through multiple linear regression. Figures shown are as of December 31 for each year.

Capacity

Physical design capacity figures shown reflect all currently planned capacity increases. Futher capacity increases may be planned for before 1990.

New York

Population

The projected 1985 population is as of March 31. New York State provided no projections beyond 1985 due to a pending change in the state's sentencing laws. Since the nature of the new sentencing guidelines has not yet been specifically determined, their impact on future prison populations cannot yet be forecast.

Nevada

Population

Figure for 1983 is as of December 23. Figures for 1984 through 1990 are as of June 30 for each year.

Figures include all prisoners in custody of the state, including Federal Prison System prisoners.

Capacity

Physical design capacity figures are the state's "design" capacity projections and include a planned 600-bed facility expected to be in service in 1988. Further capacity increases may be planned for before 1990.

Nevada also has a figure for "critical" capacity, which includes at least 50 percent double-bunking and is a level that Nevada says can be maintained safely for an indefinite time. The critical capacity was 3,185 in 1983 and is projected to remain the same in 1984.

Nevada also has a figure for "emergency" capacity, which involves maximum double-bunking and is a level that Nevada says can be safely maintained for no more than 90 days. Emergency capacity was 3,599 in 1983 and is projected to remain the same in 1984.

No projections of future critical or emergency capacity were provided.

North Carolina

Capacity

Physical design capacity figures shown represent the only capacity figures which North Carolina uses. However they are greater than the true physical design capacity but less than the actual number of prisoners that can be housed during times of emergency or during population peaks.

North Dakota

Capacity

Figures reflect all currently planned capacity increases. Further capacity increases may be planned for before 1990.

Ohio

Population

The actual 1983 population is as of October 1. All other projections are as of January 1 for each year. The numbers reflect Ohio's "baseline" projections which are intermediate between two other sets of projections called "optimistic" and "gloomy." They are as follows:

	Optimistic	Baseline	Gloomy
1984	18500	19000	19320
1985	19400	19950	21360
1986	20100	21500	22800
1987	22110	23650	28700
1988	24120	25800	34440
1989	26130	27950	40200
1990	26630	28500	43880

Ohio noted in its response that its prison population in 1983 had not increased at the rate previously projected and thus its projections of future population increases may be overstated.

Oklahoma

Population and Capacity

Figures for 1983 are as of December 11. Figures for 1984 through 1987 are as of June 30 for each year.

Oregon

Capacity

Figures for physical design capacity represent all currently planned capacity increases. Further capacity increases may be planned for before 1990.

Pennsylvania

Capacity

Physical design capacity figures for 1986-1988 are tentative due to uncertainty of construction schedules.

Rhode Island

Population

Figure of 1,085 for 1983 represents actual average daily population for the fiscal year ending June 30,1983.

South Carolina

Population

Figures shown were projected in 1983. South Carolina says that new projections are being developed that are not likely to be as high, due to recent changes in parole and other legislation.

South Dakota

Capacity

The physical design capacity figure for 1983 includes 440 beds in the main institution, 26 in a women's facility, 38 in a trustee cottage, 84 in a trustee unit, and 48 on a farm.

Tennessee

Population

Figures shown were developed in October 1981. Although Tennessee reports that the projections have been historically fairly accurate, they are no longer valid due to a recent court order limiting populations and calling for a 50-person per month reduction in population until November 1985.

Capacity

Figures represent court-ordered designated capacity.

Texas

Population

In June 1983, Texas adopted alternative legislation of the type in effect in Michigan. The legislation requires release of prisoners once capacity reaches 95 percent of design capacity. The projections shown are equivalent to the projected maximum allowable capacity of the state's prisons and were provided to GAO in place of separately generated population projections.

Capacity

The physical design capacity figure for 1983 is as of December 31.

Utah

Capacity

Projections for 1984 through 1990 are as of July 1 for each year.

Vermont

Population

Figures include persons in detention status and in jails, since Vermont has no county or local jail system. Vermont did not provide projections for 1986-1989 and originally provided a range, from 571 to 743, for the projected population in 1990. Vermont said this could be expressed as 657 ± 86.

Virginia

Capacity

Maximum allowable capacity figures shown are the only capacity figures Virginia uses, which it refers to as "operational capacity". The figures represent a level somewhere between physical design and maximum allowable capacity.

Washington

Population

Washington State provided two sets of population projections. One includes the projected impact of the Sentencing Guidelines Commission; the other is based on assumptions regarding the current system with the impact of an early release program, taken into account. The two sets of projections are as follows:

	Sentencing guidelines commission	Early release program
1984	6896	6655
1985	7418	7546
1986	7603	8071
1987	7524	8555
1988	7616	8958
1989	7855	9321
1990	8136	9657

Capacity

Figures reflect all currently planned capacity increases. Futher increases may be planned for before 1990.

West Virginia

No notes

Wisconsin

Capacity

Maximum allowable capacity population ceilings apply to maximum and medium security male facilities, but they do not apply to all Wisconsin facilities. Hence no maximum allowable capacity figures were provided.

Wyoming

Population

Figures include all inmates, whether housed, on furlough, or in work release or other programs.

ACTUAL AND PROJECTED PRISON AND CORRECTIONAL INSTITUTION CAPACITIES

Table FPS-2 provides information on the rated capacity of the Federal Prison System at the end of fiscal year 1983, presented by BOP region and facility. The table also shows the type of facility, security levels and actual operating costs for each BOP facility in fiscal year 1983 (total obligations and per capita).

TABLE FPS-2
RATED CAPACITY FEDERAL PRISON SYSTEM
FISCAL YEAR 1983

BOP Facility	Type of facility	Security level of facility	Current rated capacity	1983 Operating Costs Obligations	 Per capita
Northest Regions:					
Alderson[a]	FCI	A	572	$ 7,473,406	$13,677
Allenwood	FPC	1	374	3,978,895	7,435
Danburry	FCI	2	511	7,899,966	9,147
	FPC	1	132		
Lewisburg	USP	5	1,040	13,872,976	10,330
	FPC	1	147		
Morgantown[b]	FCI	A	344	6,058,016	15,133
New York	MCC	A	407	7,240,324	10,987
Otisville	FCI	3	431	7,214,086	12,596
Petersburg[b]	FCI	A	492	8,752,757	16,750
	FPC	1	37		
Ray Brook	FCI	3	480	6,833,265	9,625
Subtotal			4,967	$69,323,691	
North Central Region:					
Chicago	MCC	A	363	$ 5,779,570	$15,008
Deluth[c]	FPC	1	90	1,522,646	
Leavenworth	USP	5	914	14,509,603	10,319
	FPC	1	276		
Marion	USP	6	479	9,508,033	16,564
	FPC	1	95		
Milan	FCI	3	5[illegible]6	8,690,342	14,805
	FDC	A	71		
Oxford	FCI	4	494	8,085,735	11,998
Sandstone	FCI	2	347	5,830,124	10,654

[a] Facility for female inmates

[b] Federal Youth Corrections Act facility

[c] Per capita costs not calculated since this facility was not fully operational in fiscal year 1983

Springfield	USMCFP	A	838	21,280,559	23,597
Terre Haute	USP FPC	4 1	785 188	13,432,973	13,805
Subtotal			5,456	$88,639,585	
South Central:					
Bastrop	FCI FDC	4 A	344 112	7,028,771	12,085
Big Spring	FPC	1	486	2,994,112	6,917
El Reno	FCI FPC	4 1	817 141	11,099,337	8,518
Forth Worth	FCI	1	587	8,024,671	11,830
La Tuna	FCI FPC	2 1	313 165	7,339,256	9,797
Seagoville	FCI	2	250	5,158,176	10,844
Texarkana	FCI FPC	3 1	417 141	7,340,636	9,005
Subtotal			3,773	$48,984,959	
Southeast Region:					
Ashland	FCI	3	401	$ 7,420,487	$10,522
Atlanta	USP	A	1,614	15,338,920	10,457
Butner	FCI	A	303	7,207,163	22,640
Eglin	FPC	1	486	2,963,581	4,665
Lexington	FCI	1	911	13,710,321	11,114
Maxwell-Montgomery	FCI	1	240	1,903,677	6,110
Memphis	FCI FDC	4 A	412 17	6,865,679	11,289

Miami	MCC	A	326	6,460,747	12,224
Talladega	FCI FDC	4 A	459 48	7,160,580	10,403
Tallahassee	FCI	2	527	7,872,062	10,081
Subtotal			5,744	$76,903,217	
Western Region:					
Boron	FPC	1	243	$ 2,623,200	$ 9,753
Englewood[d]	FCI	A	393	7,016,689	16,980
Lompoc	USP FPC	5 1	1,083 436	13,787,587	8,981
Pleasanton	FCI	A	335	5,229,361	11,724
Safford	FPC	1	188	2,358,026	8,391
San Diego	MCC	A	559	5,789,019	8,453
Terminal Island	FCI FDC	3 A	461 117	9,548,348	10,939
Tucson	MCC	A	181	2,641,506	9,815
Subtotal			3,996	$ 48,993,736	
Total			23,936	$332,845,188	

[d] Federal Youth Corrections Act facility.

Table FPS-3, on the next page, shows how new construction, expansion, and renovation projects, (approved and funded through fiscal year 1984), will affect the rated capacity of the Federal Prison System. It provides information on the number of additional inmates that are expected to be housed upon completion of the projects, the rated capacity of each BOP facility upon project completion, the estimated activation date when additional capacity will be available, capital costs of projects, and sources of funding.

TABLE FPS-3

APPROVED NEW PRISON CONSTRUCTION EXPANSIONS AND RENOVATIONS FEDERAL PRISON SYSTEM

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital costs in 1983 dollars (000)
Northeast:								
Alderson	FCI	A	572	None		572		
Allenwood	FPC	1	374	None		374		
Danbury	FCI	2	511	None		511		
	FPC	1	132	None		132		
Lewisburg	USP	5	1,040	None		1,040		
	FPC	1	147	None		147		
Morgantown	FCI	A	344	None		344		
New York	MCC	A	407	None		407		
Otisville	FCI	3	431	None		431		
Petersburg	FCI	A	492	Housing unit	113	605	2/85	$ 1,900[a]
	FPC	1	37	None		37		
Ray Brook	FCI	3	480	None		480		

[a] Fiscal year 1983 Organized Crime and Drug Task Forces Appropriation

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital[a] costs in 1983 dollars (000)
				Federal Correctional Institution (SL-4)	500	500	11/86	34,050[b]
				Federal Correctional Institution (SL-2/3)	500	500	7/87	36,450[c]
Subtotal			4,967		1,113	6,080		$72,400

[b] Fiscal year 1983 "Jobs Bill" - Public Law 98-8; $3.4 million for site acquisition and planning.
Fiscal year 1984 Buildings and Facilities Appropriation - $30.650 million

[c] Fiscal year 1984 Buildings and Facilities appropriation - $3.4 million for planning and site aquisition;
Balance of $33.050 million will be requested in fiscal year 1985 budget request to support construction from Building and Facilities Appropriation

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital[a] costs in 1983 dollars (000)
North Central: Chicago	MCC	A	363	None	-	363	-	-
Deluth	FPC	1	90	Renovation/ Expansion	410	500	9/84	$ 5,700[d]
Leavenworth	FPC	5	914	Control Segregation Unit	70	984[g]	9/85	4,870[e]
				Renovation	(34)	950[g]	1988	17,450[f]
	FPC	1	276	None	-	276	-	-

[d] Fiscal year 1983 Reprogramming ($1.25 million from cancelled project); the balance or $4.45 million will be obtained through additional reprogramming or a supplemental appropriation request

[e] Fiscal year 1983 Organized Crime and Drug Task Force Appropriation

[f] Fiscal year 1981 Buildings and Facilities Appropriation ($1.85 million)
Fiscal year 1983 Buildings and Facilities Appropriation ($5.465 million)
Fiscal year 1984 Buildings and Facilities Appropriation ($1.974 million);
Balance of $8,161 source of funding not specified

[g] Net rated capacity in fiscal year 1985 = 1984; will decrease to 950 in fiscal year 1988 upon completion of renovation work

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital[a] costs in 1983 dollars (000)
Marion	USP	6	479	None	-	479	-	-
	FPC	1	95	None	-	95	-	-
Milan	FCI	3	516	None	-	516	-	-
	FDC	A	71	None	-	71	-	-
Oxford	FCI	4	494	Witness Protection Unit	70	564	7/85	2,350[h]

[h] Fiscal year 1983 Organized Crime and Drug Task Force Appropriation

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital[a] costs in 1983 dollars (000)
Sandstone	FCI	2	347	Housing Unit	95	442	11/83	$ 2,508[i]
Springfield	USMCFP	A	838	Medical Unit Renovation	105	943	7/83	3,076[j]
Terre Haute	USP	4	785	None	-	785	-	-
	FPC	1	188	None	-	188	-	-
Subtotal			5,456		716	6,206[k] 6,172[k]		$35,954

[i] Building and Facilities appropriations:
FY 1979 - $1.85 million
FY 1980 - $1.94 million
FY 1981 - $0.54 million
FY 1982 - $0.06 million
FY 1983 - $0.35 million

[j] Building and Facilities appropriations:
FY 1979 - $2.55 million
FY 1981 - $0.043 million
FY 1982 - $0.083 million
FY 1983 - $0.400 million

[k] Net rated capacity in fiscal year 1985-1987; will decrease to 6,172 in fiscal year 1988

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital[a] costs in 1983 dollars (000)
South Central:								
Bastrop	FCI	4	344	None	-	344	-	-
	FDC	A	112	None	-	112	-	-
Big Spring	FPC	1	486	None	-	486	-	-
El Reno	FCI	4	817	None	-	817	-	-
	FPC	1	141	None	-	141	-	-
Fortworth	FCI	1	587	None	-	587	-	-
La Tuna	FCI	2	313	Housing Unit	200	513	11/85	$3,000[l]
	FPC	1	165	None	-	165	-	-
Seagoville	FCI	2	250	Housing Unit	98	348	11/84	1,250[m]
Texarkana	FCI	3	417	None	-	417	-	-
	FPC	1	141	None	-	141	-	-
Subtotal			3,773		298	4,071		$4,250

[l] Fiscal year 1983 "Jobs Bill"; Public law 98-8.

[m] Fiscal year 1979 Building and Facilities Appropriation

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital[a] costs in 1983 dollars (000)
Southeast:								
Ashland	FCI	3	401	Housing Unit	100	501	12/84	$ 1,750[o]
Atlanta	USP	A	1,614	Sattellite Camp	98[n]	1,712[n]	10/84	2,400[p]
				Renovation	(739)[n]	973[n]	Unknown	38,000[q]
Butner	FCI	A	303	Housing Unit	100	433	2/85	1,650[o]
				Segregation Unit	30		11/85	750[r]
Eglin	FPC	1	486	None		486	-	-
Lexington	FCI	1	911	None		911	-	-
Maxwell/ Montgomery	FPC	1	240	Housing Unit	160	400	11/85	2,250[r]

[n] The Atlanta Penetentiary is scheduled for renovation work which will ultimately result in a reduction in capacity by 739 bedspaces. Prior to renovation the increase of 98 bedspaces to the Atlanta Sattellite Prison Camp will provide a net rated capacity of 1,712 by October 1984. Two subtotals are shown for BOP's Southeast Region; total rated capacity, 6,342 until renovation of Atlanta USP results in a decrease of 739 bedspaces for net rated capacity of 5,693 after renovation--a net decrease of 51 bedspaces for the BOP Southeast Region.

[o] Fiscal year 1983 Organized Crime Drug Task Forces Appropriation

[p] Fiscal year 1982 Buildings and Facilities appropriation

[q] Fiscal year 1983 Buildings and Facilities appropriation $0.77 million; balance of $37.23 million, source not identified

[r] Fiscal year 1983 "Jobs Bill"; Public Law 98-8

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital costs in 1983 dollars (000)
Memphis	FCI	4	412	Housing Unit	100	512	12/84	$ 3,380[o]
	FDC	A	17	None	-0-	17	-	-
Miami	MCC	A	326	None	-0-	326	-	-
Talladega	FCI	4	459	None	-0-	459	-	-
	FDC	A	48	None	-0-	48	-	-
Tallahassee	FCI	2	527	Housing Unit	100	627	2/85	2,100,000[o]
Subtotal			5,744		688[n] -739[n] - 51[n]	6,342[n] -739[n] 5,693[n]		$52,280,000[s]

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[n] The Atlanta Penetentiary is scheduled for renovation work which will ultimately result in a reduction in capacity by 739 bedspaces. Prior to renovation the increase of 98 bedspaces to the Atlanta Sattelite Prison Camp will provide a net rated capacity of 1,712 by October 1984. Two subtotals are shown for BOP's Southeast Region total rated capacity, 6,342 until renovation of Atlanta USP results in a decrease of 739 bedspaces for net rated capacity of 5,693 after renovation--a net decrease of 51 bedspaces for the BOP Southeast Region.

[o] Fiscal year 1983 Organized Crime Drug Task Forces Appropriation

[s] Capital costs of $52.280 million includes $38 million for rennovation of Atlanta USP and $14.28 million for addition of new capacity.

Existing Capacity - December 1983				Capacity Increases Approved Through Fiscal Year 1984				
BOP Facility	Type	Security level	Current rated capacity	Project	Capacity added in bedspaces additional number of inmates housed	Total rated capacity on completion	Estimated Activation Date	Capital costs in 1983 dollars (000)
Western:								
Boron	FPC	1	243	Housing Unit	98	341	3/84	$ 790[m]
Englewood	FCI	A	393	None	-	393		
Lompoc	USP	5	1,083	None	-	1,083		
	FPC	1	436		-	436		
Pleasanton	FCI	A	335	None	-	335		
Safford	FPC	1	188	None	-	188		
San Diego	MCC	A	559	None	-	559		
Terminal Island	FCI	3	461	None	-	461		
	FDC	A	117	None	-	117	-	-
Tucson	MCC	A	181	Housing Unit Expansion	14	195	9/84	350[p]
				Phoenix-FCI	500	500	6/85	23,920[p]
				Los Angeles-MCC	500	500	7/87	40,000[r]
Subtotal			3,996		1,112	5,108		65,060
Grand Total All Regions			23,936		3,188	27,124		$229,944

[m] Fiscal year 1979 Building and Facilities Appropriation

[p] Fiscal year 1982 Buildings and Facilities appropriation

[r] Fiscal year 1983 "Jobs Bill"; Public Law 98-8

Table DC-1 provides information on approved increases in rated or operational capacity of correctional facilities operated by the District of Columbia Department of Corrections. It shows the rated capacity of each of the District's facilities in fiscal year 1983 and anticipated operating capacity levels for fiscal years 1984 through 1990. Table DC-2, on page 76 shows the same information for maximum allowable capacity

TABLE DC-1

RATED CAPACITY AND APPROVED INCREASES
DISTRICT OF COLUMBIA
FOR FISCAL YEARS 1983-1990

facility	Number of inmate living spaces							
	1983	1984	1985	1986	1987	1988	1989	1990
Detention facility	1,355	1,448	1,448	1,448	1,448	1,448	1,448	1,448
Lorton prison complex	3,244	3,894	3,894	3,894	3,894	3,894	3,894	3,894
sub-total								
Central	1,166	1,166	1,166	1,166	1,166	1,166	1,166	1,166
Maximum	536	536	536	536	536	536	536	536
Minimum (old)	300	-	-	-	-	-	-	-
Occoquan I	436	436	436	436	436	436	436	436
Occoquan II	150	450	450	450	450	450	450	450
Occoquan III	-	250	250	250	250	250	250	250

TABLE DC-1 (Continued)

RATED CAPACITY AND APPROVED INCREASES
DISTRICT OF COLUMBIA
FOR FISCAL YEARS 1983-1990

facility	Number of inmate living spaces							
	1983	1984	1985	1986	1987	1988	1989	1990
Youth Center I	406	406	406	406	406	406	406	406
Youth Center II	250	250	250	250	250	250	250	250
Minimum (new)	-	400	400	400	400	400	400	400
Sub-total Incarcerated	4,599	5,342	5,342	5,342	5,342	5,342	5,342	5,342
Community Corrections Centers	300	300	300	300	300	300	300	300
Total-DCDC capacity	4,899	5,642	5,642	5,642	5,642	5,642	5,642	5,642

TABLE DC-2
MAXIMUM ALLOWABLE CAPACITY
DISTRICT OF COLUMBIA
FISCAL YEARS 1983-1990

DCDC facility	Number of inmate living spaces							
	1983	1984	1985	1986	1987	1988	1989	1990
Detention	1,807	1,807	1,807	1,807	1,807	1,807	1,807	1,807
Lorton prison complex	3,244	3,894	3,894	3,894	3,894	3,984	3,894	3,894
sub-total								
Central	1,166	1,166	1,166	1,166	1,166	1,166	1,166	1,166
Maximum	536	536	536	536	536	536	536	536
Minimum (old)	300	-	-	-	-	-	-	-
Occoquan I	436	436	436	436	436	436	436	436
Occoquan II	150	450	450	450	450	450	450	450
Occoquan III	-	250	250	250	250	250	250	250
Youth Center I	406	406	406	406	406	406	406	406
Youth Center II	250	250	250	250	250	250	250	250
Minimum (new)	-	400	400	400	400	400	400	400
Sub-total Incarcerated	5,351	6,001	6,001	6,001	6,001	6,001	6,001	6,001

Tables S-2 through S-4 provide information on state prison and correctional institution capacities as of September 30,1983 and projected for the years 1984 through 1990.

Table S-2 provides the data obtained from the 50 states on actual 1983 and projected 1984-1990 physical design or rated capacities of state prisons and correctional institutions.

TABLE S-2

PHYSICAL DESIGN OR RATED CAPACITIES OF STATE PRISONS AND CORRECTION INSTITUTIONS 1983-1990

Number of inmate bedspaces

STATE	1983	1984	1985	1986	1987	1988	1989	1990
ALABAMA	7783	9883	9883	9883	9883	9883	9883	9883
ALASKA	1100	1453	1709	2022	2022	2022	2022	2022
ARIZONA	5433	6770	8420	9489	10257	10257	10257	10257
ARKANSAS	4184	4377	4772	4988	4988	4988	4988	4988
CALIFORNIA	25701	28751	34721	42721	43771	43771	43771	43771
COLORADO	2776	2810	2935	2935	2935	2935	2935	2935
CONNECTICUT	4209	4709	4709	4529	5029	5029	5029	5429
DELAWARE	2075	2075	2182	2482	2482	2482	2482	2482
FLORIDA	20499	22246	24047	24047	24047	24047	24047	24047
GEORGIA	11786	11930	12090	12390	13150	13850	14230	14630
HAWAII	940	976	976	1015	1167	1384	1608	2608
IDAHO	900	950	1040	1170	1030	1030	1030	1030
ILLINOIS	13396	18837	19737	20731	20731	20731	20731	20731
INDIANA	6424	6424	6424	6424	7124	7124	7124	7124
IOWA	2572	3049	2899	2899	2899	2899	2899	2899
KANSAS	2597	2999	3442	3599	3649	N/A	N/A	N/A
KENTUCKY	4757	4757	4689	4598	4598	4598	4598	4598
[a] LOUISIANA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MAINE	837	837	1021	1021	1021	1021	1021	1021
MARYLAND	7960	9380	9380	9380	10820	10820	10820	10820
MASSACHUSETTS	3121	3112	N/A	N/A	N/A	N/A	N/A	N/A
MICHIGAN	13047	12970	12840	13340	13840	13840	13840	13840
MINNESOTA	2531	2531	2531	2531	2531	2531	2531	2531
[a] MISSISSIPPI	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MISSOURI	6185	6185	6185	6185	6185	6185	6185	6185
MONTANA	630	700	700	899	899	899	899	899
NEBRASKA	987	1227	1227	1227	1277	1227	1277	1227
NEVADA	2541	3013	3013	3013	3013	3613	3613	3613
NEW HAMPSHIRE	414	414	414	526	526	526	526	646
NEW JERSEY	7864	9177	9731	9951	11001	N/A	N/A	N/A
NEW MEXICO	1950	2388	2596	2686	2686	2686	2686	2686
NEW YORK	26059	28540	30757	31757	N/A	N/A	N/A	N/A
NORTH CAROLINA	16261	16789	16985	16985	16985	16985	16985	16985
NORTH DAKOTA	471	471	471	489	489	489	489	489
OHIO	12300	14321	15069	15069	16349	16119	16119	19319
OKLAHOMA	5347	6074	N/A	N/A	N/A	N/A	N/A	N/A
OREGON	2444	2544	2794	2794	2794	2794	2794	2794
PENNSYLVANIA	9517	9795	10184	10884	17714	13214	13214	13214
RHODE ISLAND	1122	1122	1122	1122	1266	1266	1309	1309
SOUTH CAROLINA	6381	6927	7119	7503	7503	7503	7503	7503
SOUTH DAKOTA	636	636	836	836	836	836	836	836
TENNESSEE	7982	7982	8172	8292	8292	8292	8292	8292
TEXAS	39785	42673	43917	43917	43917	43917	43917	43917
UTAH	1127	1247	1342	1485	1485	1485	1485	1485
VERMONT	353	353	353	603	653	653	653	653
[a] VIRGINIA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WASHINGTON	4521	5142	5761	5662	5764	5764	5764	5764
WEST VIRGINIA	1281	1281	1281	1281	1281	1281	1281	1281
WISCONSIN	3720	3880	3870	4995	4995	4995	4995	4995
WYOMING	526	574	N/A	N/A	N/A	N/A	N/A	N/A

[a] States which did not provide data on "physical design or rated capacity."

Note: See Table S-1 on pages 47 to 59 for notes on limitations of data by state.

Table S-3 shows the net changes 1984 through 1990, in the number of inmates who could be housed based on physical design or rated capacity levels for 47 states that provided data on this measure.

TABLE S-3

NET INCREASE/DECREASE IN PHYSICAL DESIGN OR RATED CAPACITY OF STATE PRISONS AND CORRECTIONAL INSTITUTIONS
1984-1990

Number of inmate bedspaces

STATE	1984	1985	1986	1987	1988	1989	1990
ALABAMA	1100	1000	0	0	0	0	0
ALASKA	353	256	313	0	0	0	0
ARIZONA	1137	1650	1069	748	0	0	0
ARKANSAS	188	400	216	0	0	0	0
CALIFORNIA	3050	7970	5500	1530	0	0	0
COLORADO	14	145	0	0	0	0	0
CONNECTICUT	300	0	-180	500	0	0	400
DELAWARE	0	107	300	0	0	0	0
FLORIDA	1747	1801	0	0	0	0	0
GEORGIA	144	160	300	740	700	380	400
HAWAII	34	0	39	132	217	274	1000
IDAHO	30	110	110	-140	0	0	0
ILLINOIS	2641	1700	994	0	0	0	0
INDIANA	0	0	0	700	0	0	0
IOWA	477	-150	0	0	0	0	0
KANSAS	402	463	137	50	N/A	N/A	N/A
KENTUCKY	0	-68	-91	0	0	0	0
[a] LOUISIANA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MAINE	0	184	0	0	0	0	0
MARYLAND	1420	0	0	1440	0	0	0
MASSACHUSETTS	-9	N/A	N/A	N/A	N/A	N/A	N/A
MICHIGAN	-77	-130	500	500	0	0	0
MINNESOTA	0	0	0	0	0	0	0
[a] MISSISSIPPI	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MISSOURI	0	0	0	0	0	0	0
MONTANA	30	0	199	0	0	0	0
NEBRASKA	240	0	0	0	0	0	0
NEVADA	472	0	0	0	600	0	0
NEW HAMPSHIRE	0	0	112	0	0	0	120
NEW JERSEY	1315	952	220	1050	N/A	N/A	N/A
NEW MEXICO	430	207	96	0	0	0	0
NEW YORK	2484	2712	1000	N/A	N/A	N/A	N/A
NORTH CAROLINA	320	196	0	0	0	0	0
NORTH DAKOTA	0	0	18	0	0	0	0
OHIO	1821	1248	300	500	-250	0	3700
OKLAHOMA	477	N/A	N/A	N/A	N/A	N/A	N/A
OREGON	100	250	0	0	0	0	0
PENNSYLVANIA	278	389	700	1830	500	8	0
RHODE ISLAND	0	0	0	144	0	43	0
SOUTH CAROLINA	346	192	384	0	0	0	0
SOUTH DAKOTA	0	200	0	0	0	0	0
TENNESSEE	0	190	120	0	0	0	0
TEXAS	2000	1244	0	0	0	0	0
UTAH	120	295	-57	0	0	0	0
VERMONT	0	0	30	50	0	0	0
[a] VIRGINIA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WASHINGTON	641	99	401	102	0	0	0
WEST VIRGINIA	0	0	0	0	0	0	0
WISCONSIN	80	70	1125	0	0	0	0
WYOMING	40	N/A	N/A	N/A	N/A	N/A	N/A

[a] States which did not provide data on "physical design or rated capacity"; see Table S-4 for the data on "maximum allowable capacity".

Note: See Table S-1 on pages 47 to 59 for notes on limitations of data by state.

Table S-4 provides data obtained from the 50 states on 1983 actual and projected 1984-1990 maximum allowable capacities of state prisons and correctional institutions.

TABLE S-4

MAXIMUM ALLOWABLE CAPACITIES OF STATE PRISONS AND CORRECTIONAL INSTITUTIONS
1983-1990

Number of inmates who can be housed

STATE	1983	1984	1985	1986	1987	1988	1989	1990
[a] ALABAMA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ALASKA	1177	1842	2337	2640	2640	2640	2640	2640
[a] ARIZONA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ARKANSAS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CALIFORNIA	38087	39913	51243	61798	64613	64613	64613	64613
[a] COLORADO	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CONNECTICUT	5813	6313	6313	5963	6759	6759	6759	7297
[a] DELAWARE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FLORIDA	28449	31298	29422	29422	29422	29422	29422	29422
GEORGIA	15462	15606	15846	16296	17436	18486	19056	19656
HAWAII	1388	1388	N/A	N/A	N/A	N/A	N/A	N/A
IDAHO	1100	1170	1170	1230	1090	1090	1090	1090
ILLINOIS	14749	16398	19737	20487	20487	20487	20487	20487
[a] INDIANA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IOWA	2812	3163	3013	3013	3013	3013	3013	3013
KANSAS	3998	4400	5151	5288	5388	N/A	N/A	N/A
[a] KENTUCKY	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LOUISIANA	10271	10328	11140	11760	12451	13160	13819	14497
[a] MAINE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MARYLAND	11608	13513	13513	13513	13673	13673	13673	13673
MASSACHUSETTS	3350	3339	N/A	N/A	N/A	N/A	N/A	N/A
[a] MICHIGAN	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] MINNESOTA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MISSISSIPPI	4557	4857	5983	6455	6955	6955	6955	6955
[a] MISSOURI	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] MONTANA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] NEBRASKA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] NEVADA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NEW HAMPSHIRE	506	506	506	618	618	618	618	738
NEW JERSEY	8857	10172	10744	10694	11744	N/A	N/A	N/A
[a] NEW MEXICO	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NEW YORK	30287	33388	35320	36320	N/A	N/A	N/A	N/A
[a] NORTH CAROLINA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] NORTH DAKOTA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OHIO	17779	19600	20848	21148	21648	21398	21398	24598
OKLAHOMA	7666	8077	N/A	N/A	N/A	N/A	N/A	N/A
[a] OREGON	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] PENNSYLVANIA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RHODE ISLAND	1248	1248	1248	1248	1408	1408	1456	1456
SOUTH CAROLINA	7630	7976	8360	8744	8744	8744	8744	8744
SOUTH DAKOTA	894	894	1070	1070	1070	1070	1070	1070
[a] TENNESSEE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TEXAS	37796	40539	41721	41721	41721	41721	41721	41721
UTAH	1236	1379	1492	1643	1643	1643	1643	1643
VERMONT	598	598	598	630	680	680	680	680
VIRGINIA	9544	10044	10044	10544	10544	10544	10544	10544
WASHINGTON	5951	6471	7010	7411	7411	7411	7411	7411
[a] WEST VIRGINIA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] WISCONSIN	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
[a] WYOMING	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[a] States which did not distinguish between "maximum allowable capacity" and "physical design or rated capacity," see Table S-2 for the daca on "physical or rated design capacity" for these states.

Note: See Table S-1 on pages 47 to 59 for notes on limitations of data by state.

Table S-5 shows the number of inmates exceeding physical design or rated capacities of state prisons and correctional institutions in 1983 and projected for 1984-1990 by the 50 states. It illustrates deficits or surpluses as in state prison or correctional institution bedspaces and is a measure of overcrowding. Figures preceeded by a minus sign indicate the shortfall in available bedspaces based on 1983 and projected 1984-1990 rated capacities in comparison with states projections of inmate populations for these years.

TABLE S-5

DEFICIT OR SURPLUS PHYSICAL DESIGN OR RATED CAPACITY OF STATE PRISONS AND CORRECTIONAL INSTITUTIONS 1983-1990

Number of inmates in excess of or under capacity

STATE	1983	1984	1985	1986	1987	1988	1989	1990
[a]ALABAMA	-1898	-2032	-2325	-3607	-4089	-6171	-7453	-8735
ALASKA	144	144	221	-82	-384	-686	-686	-686
[a]ARIZONA	-1088	-686	-195	-310	-839	-2254	-3774	-5403
[a]ARKANSAS	133	-149	25	4	-245	-307	-781	-1070
CALIFORNIA	-12449	-13594	-10579	-7789	-8849	-8849	-8849	-8849
[a]COLORADO	-665	-817	-479	-385	-394	-400	-400	-400
CONNECTICUT	238	337	498	297	786	790	807	1234
[a]DELAWARE	-77	-217	45	153	-39	-231	-423	-615
FLORIDA	-5984	-3754	-4855	-4656	-6401	-7221	-8135	-9950
GEORGIA	-3676	-3676	-3676	-3676	-3676	-3676	-3676	-3676
HAWAII	-754	-781	-960	-1134	-1080	-961	-836	63
IDAHO	-185	-166	-116	-43	-275	-361	-456	-548
ILLINOIS	670	398	357	-273	-273	-273	-273	-273
[a]INDIANA	-2836	-3779	-4489	-4489	-3789	-3789	-3789	-3789
IOWA	-85	274	-1	-101	-101	-101	-101	-101
KANSAS	-854	-869	-752	-1029	-979	-979	-979	-979
[a]KENTUCKY	120	157	-174	-522	-778	-1035	-1402	-1402
LOUISIANA	-2155	-3393	-4338	-5274	-6140	-6988	-7886	-8767
[a]MAINE	-202	-228	-92	-139	-171	-171	-171	-171
MARYLAND	-4067	-2683	-3315	-3720	-2539	-2802	-2942	-3080
MASSACHUSETTS	-1523	-1514	-2168	-2328	-2438	-2438	-2438	-2438
[a]MICHIGAN	-87	0	0	0	0	0	0	— 0
[a]MINNESOTA	405	405	405	405	405	405	405	405
MISSISSIPPI	-1104	-1068	-642	-795	-620	-1075	-1075	-1075
[a]MISSOURI	-1093	-1875	-2740	-3228	-3726	-4247	-4812	-5263
[a]MONTANA	-297	-253	-258	-53	-41	-26	-10	7
[a]NEBRASKA	-459	-239	-114	-85	-54	-28	-1	26
[a]NEVADA	-635	-213	-434	-808	-1216	-910	-1122	-1474
NEW HAMPSHIRE	1	1	1	-7	-7	-7	-7	-37
NEW JERSEY	-2303	-2341	-2369	-2849	-2199	-2399	-2699	-2999
[a]NEW MEXICO	-11	210	272	224	82	-60	-202	-344
NEW YORK	-4410	-3371	-4190	-3190	-3190	-3190	-3190	-3190
[a]NORTH CAROLINA	-169	389	85	-415	-1115	-1915	-2615	-3015
[a]NORTH DAKOTA	75	46	12	-48	-110	-180	-250	-320
OHIO	-3279	-4679	-4381	-3631	-7281	-9481	-11831	-9181
OKLAHOMA	-1745	-1816	-2916	-4016	-5116	-6216	-7316	-8416
[a]OREGON	-1043	-404	-326	-254	-160	-160	-254	-326
[a]PENNSYLVANIA	-926	-1841	-2376	-2076	-344	-286	-286	-286
RHODE ISLAND	37	-33	-151	-237	-228	-353	-445	-591
SOUTH CAROLINA	-2979	-4642	-3053	-3210	-3740	-4313	-6940	-7418
SOUTH DAKOTA	-190	-164	36	16	16	16	16	16
[a]TENNESSEE	-292	-87	-219	-406	-442	-481	-521	-539
TEXAS	3437	2134	2196	2196	2196	2196	2196	2196
UTAH	-183	-207	-55	-256	-391	-456	-553	-649
VERMONT	-71	-34	-34	16	66	66	66	-4
VIRGINIA	61	-717	-747	-422	-637	-860	-1091	-1187
WASHINGTON	-1448	-1493	-2285	-2409	-2791	-3194	-3537	-3893
[a]WEST VIRGINIA	-27	-77	-127	-177	-227	-277	-327	-377
[a]WISCONSIN	-1016	-1157	-1082	-34	74	188	370	370
[a]WYOMING	-267	-361	-485	-609	-733	-857	-981	-1105

[a] States which did not provide data on "physical design or rated capacity"; see table S-4 for data on "maximum allowable capacity. For these states, (Louisianna, Mississippi, and Virginia) we used maximum allowable capacity".

Note: See table S-1 on pages 47 to 59 for notes on limitations of data by state.

INCREASES TO RATED CAPACITY TO HOUSE PROJECTED POPULATIONS, ASSUMING NO ALTERNATIVES TO ADDING BEDSPACES

The following tables provide information on what additions to rated capacity, would be needed to house projected Federal Prison System inmate populations in future years, if no alternatives to increasing capacity are developed and implemented.

Table FPS-4 shows what additions to Federal Prison System capacity BOP would request, if it had no other alternative but to increase rated capacity levels, to house its projected fiscal year 1988 inmate population of 35,182. The table provides BOP's estimates of what new prison construction or expansion projects it would consider undertaking under these constraints, the net increase in rated capacity that would be realized, and estimated capital costs that would be incurred to add 7,564 more bedspaces than are currently approved through fiscal year 1984.

Table FPS-5 (on page 87 to 89) provide comparative capital cost estimates to increase the rated capacity of the Federal Prison System using different estimates of average per bed capital costs, without and with adjustments for inflation, to reduce and/or eliminate overcrowding.

Table FPS-4

ADDITIONS TO FEDERAL PRISON SYSTEM CAPACITY, ASSUMING NO ALTERNATIVES TO INCREASING CAPACITY, TO HOUSE FUTURE PROJECTED PRISONER POPULATIONS IN FISCAL YEAR 1988

Type of facility	New construction or expansion	Project	Security level designation	Net increase in rated capacity number of inmates housed	Estimated capital costs (000)[a]
Northeast region:					
Existing facility	Expansion	Housing unit - Federal Prison Camp	1	150	2,000
Existing facility	Expansion	Housing unit - Federal Correctional Institution	1	150	2,000
Federal Prison Camp #1	New Construction	New Federal Prison Camp	1	500	3,000
Federal Prison Camp #2	New Construction	New Federal Prison Camp	1	500	3,000
Federal Prison Camp #3	New Construction	New Federal Prison Camp	1	500	3,000

[a] In 1983 constant dollars

Type of facility	New construction or expansion	Project	Security level designation	Net increase in rated capacity number of inmates housed	Estimated capital costs (000)
Federal Correctional Institution #1	New Construction	New Federal Correctional Institution (FCI)	4	500	35,000
Federal Correctional Institution #2	New Construction	New Federal Correctional Institution (FCI)	4	500	35,000
Subtotals Northeast Region				2,800	$83,000

Type of facility	New construction or expansion	Project	Security level designation	Net increase in rated capacity number of inmates housed	Estimated capital costs (000)
North Central region					
Existing facility	Expansion	Housing unit	3	100	$ 2,000
Subtotal				100	2,000
Southeast region:					
Existing facility	Expansion	Housing unit at existing federal correctional institution	1	68	2,000
New federal prison camp	New Construction	Federal prison camp	1	500	$35,000
New federal correctional institution #1	New Construction	New federal correctional institution (FCI)	3	500	3,000
New federal correctional institution #2	New Construction	New federal correctional institution (FCI)	3/4	500	$35,000
New Federal correctional institution #3	New Construction	New federal correctional institution (FCI)	5	500	$ 35,000
Subtotal				2,068	$110,000

Type of facility	New construction or expansion	Project	Security level designation	Net increase in rated capacity number of inmates housed	Estimated capital costs (000)[a]
South Central region					
Existing facility	Expansion	Housing unit-expansion at existing federal correctional institution	2	96	$2,000
Existing facility	Expansion	Housing unit-expansion at existing federal correctional institution	3	100	$2,000
New Federal Correctional Institution	New Construction	New federal correctional institution (FCI)	3	500	$35,000
Subtotal				696	$39,000

Type of facility	New construction or expansion	Project	Security level designation	Net increase in rated capacity number of inmates housed	Estimated capital costs (000)[a]
Western region					
New Federal Prison Camp #1	New Construction	New FPC	1	500	$ 3,000
New Federal Prison Camp #2	New Construction	New FPC	1	500	3,000
New Federal Correctional Institution #1	New Construction	New FCI	3	400	35,000
New Federal Correctional Institution #2	New Construction	New FCI	4	500	35,000
Subtotal				1,900	$ 76,000
Total of all regions				7,564	$310,000

TABLE FPS-5
COMPARATIVE COST ESTIMATES FOR CAPITAL CONSTRUCTION TO INCREASE RATED CAPACITY OF THE FEDERAL PRISON SYSTEM - FY 1985-1988

Basis upon which capital costs are estimated	Capital costs (in 1,000s)	Number of additional bedspaces	Rated capacity upon completion & activation date	Official projected FY 1988 population	Deficit in rated capacity FY 1988	Unofficial projected FY 1990 population	Deficit in rated capacity FY 1990
Approved Prison Construction or Expansion Projects through FY 1984:							
@$54,734.63 average cost per bedspace in 1983 constant dollars	$174,494	3,188	27,124 (by FY 1988)	35,182	(8058) 27.9% Overcrowded	37,977	(10,853) 40% Overcrowded
Additional Prison Construction or Expansion Projects to House FY 1988 Population With an Overcrowding Rate of 1.4% Over Rated Capacity:		7,564	34,688 (in FY 1988)	35,182	(494) 1.4% Overcrowded	37,977	(3,289) 9.5% Overcrowded
@$40,983.61 average cost per bedspace in 1983 constant dollars	310,000						
@ 54,734.63 average cost per bedspace in 1983 constant dollars	414,013						
@ 40,983.61 average cost per bedspace adjusted for 10% inflation in costs over a four year funding period (FY 1985-88)	395,645						
@ 54,734.63 average cost per bedspace adjusted for 10% inflation in costs over a four year funding period (FY 1985-88)	528,394						

Basis upon which capital costs are estimated	Capital costs (In 1,000s)	Number of additional bedspaces	Rated capacity upon completion & activation date	Official projected FY 1988 population	Deficit in rated capacity FY 1988	Unofficial projected FY 1990 population	Deficit in rated capacity FY 1990
Additional Prison Construction or Expansion Projects to House FY 1988 Population at Rated Capacity		8,058	35,182 (In FY 1982)	35,182	-0-	37,977	(2,795) 7.95 Overcrowded
@$40,983.61 average cost per bedspace in 1983 constant dollars	$330,246						
@ 54,734.63 average cost per bedspace in 1983 constant dollars	441,052						
@ 40,983.61 average cost per bedspace adjusted for 10% annual inflation in costs over a four year period (FY 1985-88)	421,485						
@ 54,734.63 average cost per bedspace adjusted for 10% annual inflation in costs over a four year period (FY 1985-88)	562,903						
Additional Prison Construction or Expansion Projects to House FY1988 Population at Capacity		10,853	37,977 (FY 1990)	35,182	-0-	37,977	-0-
@$40,983.61 average cost per bedspace in 1983 constant dollars	$444,796						
@ 54,734.63 average cost per bedspace in 1983 constant dollars	594,035						

Basis upon which capital costs are estimated	Capital costs (in 1,000s)	Number of additional bedspaces	Rated capacity upon completion & activation date	Official projected FY 1988 population	Deficit in rated capacity FY 1988	Unofficial projected FY 1990 population	Deficit in rated capacity FY 1990
@ 40,983.61 average cost per bedspace adjusted for 10% annual inflation in costs over a four year funding period (FY 1985-88)	567,681						
@ 54,734.63 average cost per bedspace adjusted for 10% decrease inflation in costs over a four year funding period	758,152						

Table DC-3 lists the criminal justice system indicators (discussed on page 37 in appendix VI) used by the District of Columbia Department of Corrections in its mathematical projections of future detention, sentenced incarcerated and parole populations.

TABLE DC-3

CRIMINAL JUSTICE SYSTEM INDICATORS USED IN MATHEMATICAL PROJECTIONS OF FUTURE DISTRICT OF COLUMBIA INMATE POPULATIONS

Arrests for part-I (the most serious) offenses
Arrests for part-I offenses lagged nine months
Arrests for part-I offenses lagged one-year
Felony cases filed at the United States Attorney's Office (USAO)
Misdemeanor cases filed at the USAO
Cash and Surety Bonds (USAO) for Misdemeanants
Cash and Surety Bonds (USAO) for Felons
Guilty dispositions - misdemeanants (USAO)
Guilty dispositions - felons (USAO)
Delay between arrest and final disposition - misdemeanants (USAO)
Delay between arrest and final disposition - felons (USAO)
Unemployment rate
Defendants detained pretrial (Bail Agency)
Defendants interviewed by the Bail Agency
Number of sentences imposed (DCDC)
Number of sentences imposed lagged on-year (DCDC)
New commitments to detention
New commitments to detention lagged one-year
Average maximum length of sentence (males and females)
Average maximum length of sentence (males)
Average minimum length of sentence (males and females)
Average minimum length of sentence (males)
Average minimum length of sentence lagged one-year
Average maximum length of sentence lagged one-year
Number of parole grants
Number of parole grants lagged one-year
Number of parole revocations.

AGRICULTURE

THURSDAY, MARCH 8, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 9:42 a.m., in room SD-608, Dirksen Senate Office Building, Senator Dan Quayle (acting chairman) presiding.

Present: Senators Quayle, Andrews, Symms, Kasten, Chiles, Biden, and Exon.

Staff present: William Hoagland, deputy staff director and senior analyst for agriculture and physical resources group.

For the minority: Richard N. Brandon, staff director; and Kenneth Erickson, senior analyst for agriculture.

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. The committee will please come to order.

We welcome the distinguished Secretary of Agriculture. We want to inform him and his two compatriots there, Mr. Dewhurst, who I understand is the Budget Director and Mr. Lesher. I want to compliment you, Mr. Secretary, for getting a good input into how the farm economy and the price and everything ought to be working and he will give it to you straight as only Hoosiers can do. Right, Bill?

Anyway, we are delighted to have you.

The chairman of the committee is down at an emergency summit, not an emergency summit, but a summit of some undertaking that takes him away from this committee this morning.

Therefore, I have the responsibility to fill in and I think what I will do in the interest of time, I know that your time is important and we have a lot of negotiations that have been going on in the last few days and discussions that we have been having. I would just like to take this opportunity that this is your third appearance before the Budget Committee and since your last appearance a year ago, agricultural issues have certainly received a great deal of attention, to say the least, from PIK to the drought, to most recently the EDB concern.

The purpose of this hearing today, however, is to focus on next year's agriculture budget and more specifically on the outlook for agricultural credit and for agricultural export markets. Time permitting, we also hope to briefly discuss policies and programs that may comprise any new farm bill this year or next.

What I will do, I will insert in its entirety Chairman Domenici's statement which outlines his concern for the future of the farm program, his concern and interest on where the price supports ought to be, how exports are in fact going.

We can get into some of the problems that we may have with interest rates and things of that sort but I think that what we will really do is, Mr. Secretary, is to hear from you.

So I will yield for any opening comments that Senator Chiles may have and I will insert Chairman Domenici's statement in the record in full.

[The statement of Chairman Domenici follows:]

STATEMENT OF CHAIRMAN DOMENICI

It is a pleasure once again to welcome the distinguished Secretary of Agriculture to this committee. This is Secretary Block's third appearance before the full committee. Since your last appearance a year ago, agriculture issues have certainly received a great deal of attention—from PIK, to the drought, to most recently the EDB concern.

The purpose of this hearing today, however, is to focus on next year's agriculture budget and more specifically on the outlook for agricultural credit and agricultural export markets. Time permitting, we also hope to briefly discuss policies and programs that may comprise any new farm bill this year or next.

VALUE OF AGRICULTURAL EXPORTS DECLINE

The strength of the dollar worldwide and high real interest rates, due in part to the large Federal deficit, have caused U.S. agricultural commodities to be priced out of export markets. Our agricultural exports declined for the first time in over a decade in 1982 and again in 1983; since 1981, the value of these exports has declined 25 percent. This stagnation of our export markets increases domestic surpluses, reduces domestic commodity prices and, increases Federal Government outlays. To halt this decline, the Federal deficit must be reduced and new markets must be developed and expanded.

FARM PROGRAM OUTLAYS

As we begin to focus on the agricultural policies that will comprise the 1985 farm bill, we must carefully examine past and existing farm policies. The Congressional Budget Office estimates that if current farm price-support policies continue, these programs will total $70 billion over fiscal years 1984 through 1989. The Federal outlays for commodity price support programs are estimated to decrease from a record high of $18.9 billion in 1983 to $6.1 billion in 1984. However, these outlays are projected to slowly increase again over the period 1985–89, reaching $14.8 billion in 1989.

1982 FARM PROGRAM DIRECT PAYMENTS

Farm program outlays of this magnitude probably cannot be sustained politically. Further, the public increasingly is questioning whether the farm programs are achieving their intended goals. As an example, this committee's staff has recently completed an analysis of the distribution of 1982 farm program direct payments. The findings indicate that small producers, who accounted for over 30 percent of all producers in 1982, received only 4.2 percent of all direct payments. Large producers, accounting for less than 1 percent of total producers, received over 7 percent of the payments. I do not believe Congress intended that a minority of the producers should receive a majority of the income support benefits. Unfortunately, I believe this is just one example of the difficulties inherent in designing Federal farm policies, and it emphasizes the need for some fundamental restructuring of these programs.

We look forward, Mr. Secretary, to hearing your thoughts and testimony on the budget and the upcoming 1985 farm bill.

Senator **QUAYLE**. Senator Chiles.

OPENING STATEMENT OF SENATOR CHILES

Senator **CHILES**. Thank you, Mr. Chairman.

Mr. Secretary, I welcome you to the committee today. Last September I was reading a copy of the Miami Herald and I came across an editorial on the PIK program. I will not read the whole thing, but one sentence might be of interest. It said:

PIK PROGRAM

"PIK is just the latest example of a poorly premised program run amuck."

I know that is an indictment of the program but, of course, we have heard of other stronger remarks like those of Ronald Stoddard, the president of the Nebraska Wheat Growers Association when he said:

"The money people are making money. The programs never seem to be geared to the people who really need the help."

I understand that PIK was well-intentioned and I know in 1983 the farm income has estimated at about $17 billion. Farmers were selling off their operations to pay creditors. Meanwhile outlays for the Commodity Credit Corporation had climbed to nearly $18 billion in fiscal year 1983, up from $2.7 billion in 1980.

As a means of reducing that incredible farm surplus in the United States without trying to boost farm prices, the administration set up the PIK program. The trouble is that it has not worked. Commodity Credit outlays for 1983 were over $18 billion, a record high.

On top of that, the GAO suggests that the Commodity Credit Corporation may have to be reimbursed for its outlays in future years and that will only end up making PIK even more expensive.

We have all read the stories about PIK's problems, the big companies are making the big gains and there have been problems with the administration in a soil conservation component that a lot of people have called a joke. The PIK program has not spoken for itself very well, and, when I look at the agricultural exports falling for the third consecutive year, down from 164 million metric tons in 1980 to 145 metric tons in 1983, I cannot help but think we have got an agricultural policy in serious disarray. Mr. Secretary, it looks like we have got the worst of both worlds now. We have these huge Federal deficits blocking the path to continued economic recovery, while the cost of the farm programs are fueling these deficits. Then we see the combined monetary and budget policies of the administration have helped drive up the value of the dollar. But worse than that, we have got more farmers going broke than ever before.

So the anomaly is that while we are paying more, we seem to have our farmers in worse shape.

I am beginning to think that any time the administration says deficits are coming down, you can almost bet that they are going up. But of course that is not just true with this administration.

In any case we are delighted to have you here and have you talk about the program we have before us.

Senator **QUAYLE**. The record will note that he had that with a smile.

Senator Kasten.

Senator **KASTEN**. Mr. Chairman, thank you.

I just wanted to make a brief comment.

I am sorry that in your last two appearances here I, for one reason or another, have been unable to have an opportunity to ask questions. I am going to have to be leaving this morning to chair an Appropriations Committee, Subcommittee in a few minutes. But I would like to ask, Mr. Chairman, permission to insert questions in the record and the Secretary then could answer them in writing.

Senator QUAYLE. Without objection, that will be ordered.[1]

Mr. Secretary, again, welcome. It is your turn, and go ahead and proceed at will.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE, ACCOMPANIED BY WILLIAM LESHER, ASSISTANT SECRETARY FOR ECONOMICS; AND STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Secretary BLOCK. Thank you very much, Mr. Chairman, and I would ask to put my entire statement in the record,[2] and review a shorter statement for the members here, if that would be all right.

Senator QUAYLE. That will be done.

MAJOR TURNAROUND FOR AGRICULTURE

Secretary BLOCK. 1983 was the beginning of a major turnaround for agriculture, just as it was for the rest of the U.S. economy. The economic recovery has generated increased demand for products domestically while low inflation has kept farm production cost down.

Although the rest of the world is just now beginning to recover economically, we find many encouraging signs.

For the first time in three years we expect the value of exports to be up in fiscal year 1984. It probably will be the second best year on record in terms of dollar sales.

PAYMENT-IN-KIND PROGRAM

I would also like to say a few words about the payment in kind program. Senator Chiles has already talked about the payment in kind program.

Senator CHILES. Just introduced it.

Secretary BLOCK. And I will say a little more about it, but my only question to you, Senator, is: Ask the farmers about payment in kind and I think you will find that on balance, it has helped a lot of them through difficult times and maybe saved a number of them from insolvency and has kept some of them on their feet for this period of time that we are trying to get through that has been very difficult. Not only did it help reduce the stocks, it also took the place of crops that otherwise would have withered in last year's drought and thus the producers continue to make sales and domestic and foreign consumers were assured of steady supplies and this was accomplished while saving Federal budget outlays.

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[1] See p. 750.
[2] See p. 689.

OBJECTIVES OF PIK PROGRAM

Let me show you what it did in terms of reducing the carryover stocks. You see PIK had three objectives. First, it was designed to reduce the huge surplus stocks which were a burden on the market; second, it was designed to strengthen prices; and, third, if it worked like it was supposed to work, the cost of farm programs would be down in 1984.

You can see that we effectively were able to get rid of our surplus of feed grains, rice and cotton. Wheat was not as effective as the others, but on balance, I do not think anyone can argue with the fact that we did get the stocks down overall to much more reasonable levels.

The price of crops in January this year was 20 percent above the price of crops in January a year ago. This is a good sign for farmers. The price of livestock, I might also add, is up 6 percent, all good signs. And, furthermore, the cost of farm programs in 1984, the commodity programs is going to run in the range of $6.7 billion. That is a $12 billion reduction from the 1983 cost of farm programs. These programs are on a cash accounting basis, that is, strictly, outlays. There was a lot of money, relatively speaking, that went out in 1983. However, outlays will not be as in 1984. A combination of the 1983 drought and the PIK program helped to reduce the surplus, strengthen prices, and thereby reduce Government costs.

FARM CREDIT SITUATION

Along with improvements in the farm economic situation, there has been an improvement in the farm credit situation. Improved loans to deposit ratios indicate a greater potential for private banks to make farm loans. And while interest rates are still too high, significant reductions from the record high level of two years ago have lowered the cost of borrowing.

The stabilization in farmland values after two years of decline has also helped improve the borrowing capacity of most farmers.

Lenders have become more cautious in requiring adequate security and repayment ability to protect their investment in farming. However, most farmers have adjusted to this trend which really is no more than a return to normalcy following conditions that encouraged excessive borrowing in the 1970's.

The USDA farm credit system and the commercial lending community are all working together to insure that adequate credit is available.

Farm foreclosures and other adverse actions that must be taken by lenders will remain limited to a small percentage of borrowers.

Most farmers will find the lenders they have been doing business with are willing to continue to service their needs. The Farmers Home Administration will continue to make every possible effort to stay with their existing borrowers and to reach out to new borrowers who are facing financial difficulties through no fault of their own.

I might add that Farmers Home Administration this year will have twice as much money for the operating loan program as we had in 1980. We have increased these loans over the years because of the recession and the financial strain that agriculture has faced.

PROGRAM LEVEL

With all these thoughts about the agricultural situation in mind, I would like to turn now to our budget request for fiscal year 1985.

The USDA program level measures the of all goods and services provided by the Department and the USDA program level reached $71.9 billion in fiscal year 1983. It is expected to decline by about 13 percent this year and another 10 percent in fiscal year 1985. In large part this is due to reduction in credit programs offered by the Department. As you can see, the program budget having shot up to a high in 1983 is projected to come down.

CCC PROGRAM

The more usual measure of activity is outlays which reached $46.4 billion in 1983, primarily, as a result of record Commodity Credit Corporation outlays of $18.9 billion. Outlays are expected to fall by 25 percent in 1984, primarily because of the PIK program, 1983 drought, it combined to reduce anticipated CCC outlays to $6.8 billion, about a third of last year's level. In fiscal year 1985 we expect outlays to rise somewhat to $37.7 billion as the 1984 crops return to a more normal production pattern. We think we are going to probably be raising more crops in 1984, which means more crops will be going under loan. We are going to see some increase in outlays in 1985.

Our budget for fiscal year 1985 does not reflect any legislative proposals for a comprehensive new farm bill because we believe that a thorough review and assessment of current food and agricultural problems is first necessary. To that end, I have established a working group on future food and agricultural policy to work on the important task of developing a list of appropriate agricultural policy options.

In the meantime, we propose to freeze target prices for major crops at 1984 levels. This seems to us to be a minimum step to hold the line on budget costs. It would save about $1.9 billion in fiscal year 1986 and, as you know, there have been some very intense discussions in the last few days on this subject.

EXPORT MARKET DEVELOPMENT

We are continuing the high level of export credit. We have set the export credit guarantee level at $4 billion for fiscal year 1984 and $3 billion for 1985. Over the period from fiscal year 1983 through 1985, the administration will have made available over $12 billion in export credit compared to a total of only $14 billion of credit provided by the program over its 27-year history prior to fiscal year 1983.

We are also proposing increases in the Public Law 480 program for 1984 and 1985, and an increase of $6 million in the export programs of the Foreign Agricultural Service.

In an effort to represent our interests in expanding markets abroad I have traveled extensively this year. I have traveled to the

Soviet Union to sign a new grain agreement, to Brussels to meet on the European Community's Common Agricultural Policy, to Rome to chair the FAO Conference, and to numerous other developing and developed countries in an effort to enhance the position of the U.S. farmer in those markets.

I believe these travels paid off in developing better relations between the United States and other countries. This will provide greater opportunities for selling U.S. agricultural products in the future.

If you look at this chart[1] here you can see how up until about 1974 or 1975, the agricultural balance of trade was about even. The nonagricultural balance of trade was a positive. Then as we moved through the 1970's and into the 1980's, you can see that the nonagricultural balance of trade is suffering tremendously while the agricultural balance of trade has been a very positive force. Even though we suffered some decline in the agricultural trade balance here, we are looking this year at an increase. I think it speaks well for the competitiveness of American agriculture.

We are going to continue our efforts to further increase exports with an aggressive export sales policy, expanded sales promotion, provision of credit and personal representations. Despite our proposals to decrease lending in fiscal year 1984 and fiscal year 1985, the amount of Federal credit outstanding will continue to increase from about $130 billion at the end of fiscal year 1984 to over $138 billion at the end of fiscal year 1985.

CREDIT PROGRAMS

As we look at the credit provided to agriculture and the loans in the agricultural community, you can see we are projecting some decline in the loans made but the outstanding credit continues to go up. And that is fairly important consideration.

We are providing very, very large amounts of credit, over $125 billion. The reason it keeps going up is because the loans made in prior years, when program levels were high, would not be completely repaid for some years to come as we are continuing to make new loans.

Clearly, the U.S. Department of Agriculture will continue to be a significant supplier of credit to rural America.

This shows loans outstanding by program or agency, and you can see the CCC loans. We have it projected on out through 1985, Farmers Home Administration, FHA housing, FHA development and REA, and the loans outstanding continue to go up on this chart.[1] And I think it just quite clearly shows the commitment that we have. And yet at the same time we have to keep an eye on this so that it does not get out of hand.

FARMERS HOME ADMINISTRATION

For the Farmers Home Administration farm operating loan program, we are proposing an increase for the fourth consecutive year. As I said, it will be twice what it was in 1980.

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[1] See p. 715.

However, farmers home loans and plans for other purposes such as housing and rural development will be decreased or discontinued entirely. Significantly reduced demand for Rural Electrification Administration utility loans will make it possibie to decrease loan guarantees by $2 billion in 1985. Reductions are also proposed for the direct loan programs of REA.

CROP INSURANCE PROGRAM

We are proposing to continue expansion of the crop insurance program. Coverage will be extended to 34 commodities in 3,000 agricultural counties. Producer participation is expected to increase from 15 percent in 1983 to 20 percent in 1984, and to 24 percent in 1985.

Also, due to the drought we are requesting a fiscal year 1984 supplemental to insure against cash flow problems later this spring.

SOIL AND WATER CONSERVATION

Soil and water conservation funding will be concentrated on technical assistance. Soil surveys and research, cost sharing programs will be significantly reduced. We believe that individuals and local governments should take more responsibility for financing on farm conservation practices and flood control structures.

FOREST SERVICE

For the Forest Service, we are requesting a timber sale level of $11.2 billion board feet. Low priority research projects will be terminated and funding for State and private forestry programs will be reduced.

RESEARCH PROGRAMS

Increases are proposed for in-house research programs for the traditional research and extension formula programs and for major new biotechnology initiative. This new initiative, funded at $28.5 million would be used for a competitive grants program which would focus on agricultural applications in such areas as genetic engineering. We believe that USDA must establish strong leadership in agricultural biotechnology to insure that research is directed at pressing farm programs and problems. If anyone saw a television documentary the other night, it would probably make you sit up and take notice. Children will be given shots of artificial hormones that have been developed through biotechnology. They are growing 5 inches a year. They were given these hormones because they did not have these hormones in their system.

But to carry it another step further, they talked about how it can and will eventually be applied to livestock. They put a tiny mouse on the table and said this is a normal mouse. Then they showed one which was about five times as big. They called it super mouse. He had been given these shots that have been developed through this biotechnology.

I cannot imagine how big some of my hogs are going to be if they start doing that with my hogs. It is on the horizon, though, and I think it is exciting. And yet it is kind of frightening to think how we are going to manage it.

PEST MANAGEMENT AND DISEASE CONTROL

In the area of pest and disease control, we are proposing to institute a user fee system that would partially fund the brucellosis program. We are also proposing reductions of Federal involvement in certain programs where tests are localized or where appropriate technology is not currently available.

FOOD SAFETY

For the Food Safety and Inspection Service we are requesting modest increases to enhance industry compliance and strengthen the integrity of the inspection program.

FOOD ASSISTANCE

Let me stress to you our continuing concern that food assistance be provided to needy Americans. During fiscal year 1983, the Federal food programs cost over $19 billion, a 30-percent increase over fiscal year 1980. In addition, approximately $1.4 billion worth of commodities was distributed. We are now reviewing and evaluating the recommendations of the President's task force on food assistance in an effort to further improve these programs. And this chart [1] does tell you how much the unemployment rate has gone up in this period of time here, 1983. But look at how the food assistance programs have taken off also. They have been there to meet the needs of the people that have had problems.

Our budget for the food stamp program includes a fiscal year 1984 supplemental request for $308 million which will increase the funding level to $11.3 billion.

In fiscal year 1985, we are requesting $10.8 billion. This reduction includes a savings of $176 million, based on changes in economic conditions and a net savings of $374 million based on the enactment of the administration's legislative proposals.

The most significant legislative proposal would make States liable for erroneous food stamp benefits above a 3-percent error rate.

CHILD NUTRITION PROGRAMS

For our child nutrition programs, the budget includes a fiscal year 1984 supplemental request for $545 million, bringing the total funding to $3.6 billion.

Current estimates indicate that supplemental funding will be needed by mid-May 1984.

Therefore, I urge the Congress to act expeditiously on this request.

For fiscal year 1985, the budget request for child nutrition programs is $3.7 billion.

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[1] See p. 718.

The administration is requesting a supplemental of $167 million to continue the women, infants, and children program for the rest of fiscal year 1984.

For fiscal year 1985, the administration is requesting $1.3 billion, a $22 million reduction from fiscal year 1984 level.

The budget request for the remaining domestic food assistance programs are at about the same levels as in fiscal year 1984. We will be continuing to provide additional support to the programs in the form of surplus commodities. The special distribution of dairy products and other excess CCC commodities will continue. And the budget includes a request for $50 million to assist States with commodity storage and distribution expenses.

Mr. Chairman, this concludes my remarks and I will be happy to answer any questions that you may have.

Senator **QUAYLE**. Thank you. Well, thank you very much, Mr. Secretary.

[The prepared statement of Secretary Block follows:]

Statement by
Secretary of Agriculture John R. Block
Before the
Senate Budget Committee

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the programs of the U.S. Department of Agriculture and our fiscal year 1985 budget proposals.

The past year has marked a turning point for our nation and its people, including the agriculture sector. The economic recovery has taken hold, as evidenced by growth in the gross national product of 7.7 percent during calendar year 1983. After adjustment for inflation, real growth in 1983 was 3.3 percent. We expect continued growth during 1984.

Unemployment has fallen dramatically during the past year, and we have experienced a very low rate of inflation during 1983 — about 4 percent as measured by the GNP deflator and about 3 percent as measured by the Consumer Price Index. During 1984 and 1985, we expect unemployment to fall farther, and the inflation rate is not expected to exceed 5 percent.

Current Agricultural Situation

The U.S. agricultural sector has benefited from the recovery in many ways. The recovery has generated increased demand for agricultural products domestically. Low inflation kept farm production costs down in 1983 and we expect production cost increases to be limited this year as well. Although recovery in the rest of the world typically lags recovery in the U.S., there are encouraging signs abroad. For the first time in three years, the value of U.S. agricultural exports should increase during fiscal year 1984 — to $37.5 billion from last year's $34.8 billion, or by nearly 8 percent. However, volume will again decrease slightly, to about 140 million metric tons.

We are very pleased with the new long-term supply agreement that was negotiated with the Soviet Union last year. We are confident that the new agreement will lead to increased exports over the fiscal years 1984-88, and that it will enhance our reputation as a reliable supplier. We are also continuing our efforts to meet competition in world markets through an aggressive export sales policy and to enlarge markets by reducing trade barriers, expanding sales promotion efforts, and providing necessary credit to importing countries.

On the domestic side, the Payment-in-Kind (PIK) program has been one of the most successful programs administered by the Department in recent years. Faced with burdensome surpluses, we had little choice but to institute a drastic and innovative program. Stocks of feed grains and cotton were substantially reduced, and prices for feed grains and soybeans are forecast to be 20 to 40 percent above last year's prices. Stocks of wheat, although expected to be only slightly below last year's stocks, are well below the level that would have been reached without a PIK program.

Of course, the PIK program cannot be given credit for the entire stock reduction. Many sections of the country suffered from extreme drought during the 1983 growing season. For many producers in drought areas, PIK payments prevented disaster by substituting for crops that would otherwise have been destroyed. At the same time, domestic and foreign consumers were assured of receiving steady supplies.

Finally, PIK accomplished its goals by using crops under loan and in Commodity Credit Corporation (CCC) inventory, for most of which payments had already been made. Accordingly, additional outlays for PIK in fiscal year 1983 were minimized, and outlays for loans and deficiency payments in fiscal year 1984 will be reduced by an estimated $1.9 billion as a result of PIK. For fiscal year 1985, both PIK and the 1983 drought will contribute to outlay savings, but it is difficult to distinguish between them.

The economic recovery, together with the PIK program, has led to higher net farm income. Net farm income, which was $22.1 billion in calendar year 1982, rose to an estimated $22-$24 billion in calendar year 1983. In 1984, net farm income may climb to $29-$34 billion.

The farm economy is now emerging from the gloom and doom that we felt before PIK was announced. We have turned the corner and are ready to face new challenges. In order to meet the challenges of the future, there needs to be greater flexibility in controlling price support levels and farm program costs.

The budget we are submitting does not include our legislative proposals for a new farm bill. We feel that before we can recommend an approach to a new farm bill, it is necessary to conduct a comprehensive review and assessment of current food and agriculture problems. On January 5, the President assigned this task to the Cabinet Council on Food and Agriculture, which I chair. I, in turn, have established a working group on Future Food and Agriculture policy, which will be chaired by Deputy Secretary Lyng. The working group's mandate is three-fold: to review and assess current food and farm programs; to initiate a dialogue on the future course of food and agriculture policy with interested parties inside and outside of government; and to prepare a list of food and agriculture policy options. We hope that you will participate with us in this endeavor.

Farm Credit Situation

Along with the improvement in net farm income, there has been an improvement in the farm credit situation. Private lenders are showing greater interest in making farm loans and farmers are better able to qualify for such credit at rates and terms at least comparable to those in other sectors of the economy. The Department of Agriculture, the Farm Credit System and the commercial lending community are all working to ensure that farmers receive as much credit as they can use to their advantage and in a responsible way.

However, there are uncertainties as to how much credit will be needed. Farm debt declined during 1983 to $215 billion. This decline, the first since 1945, was partly due to lower production expenses resulting from the PIK program. It may also reflect greater caution on the part of farmers in their use of credit.

During the 1970's, the combination of low interest rates and high levels of appreciation in land values encouraged excessive borrowing. Farming operations were enlarged by using credit to leverage investments in farmland; some unprofitable operations were sustained by borrowing against equities. Sometimes there was a lack of proper regard for inadequacies in the cash flow of operations financed in this manner.

Now, interest rates, although down significantly from the record high levels of two years ago, are still higher than in the 1970's and are likely to remain so. Slower and more selective increases in land values make borrowing more risky and place greater importance on an adequate cash flow. Farmers must adjust to these trends.

Those farmers who did not participate in PIK, and who sustained drought losses that they chose not to insure through the Federal Crop Insurance program, face the greatest difficulty. Some may need to borrow to stay in business while, at the same time, they lack the cash to pay off existing debts.

USDA's Farmers Home Administration (FmHA) will continue to make every possible effort to stay with its existing borrowers who face financial difficulties through no fault of their own. FmHA will also continue to provide needed special assistance to borrowers under financial stress through the use of subordination, rescheduling, reamortization, and other available authorities. Nearly one out of every four FmHA borrowers received such special assistance last year.

FmHA's delinquency rates remain high. However, the number of FmHA borrowers who left farming in 1983 due to financial stress was less than in 1982, and represents less than 3 percent of the total number of FmHA farm borrowers.

Agricultural Export Development

Long-term, sustainable export growth remains one of the highest priorities of this Administration. Agricultural export earnings bolster the U.S. economy, generating at least two dollars in activity for each dollar of exports. Several factors are responsible for the decline in exports from fiscal year 1981 through fiscal year 1983. They included global recession, record global output, competition from other exporters, protectionism and the strong dollar. During the past year, only the first of these has changed significantly. Led by the U.S., the world has started on the path to economic recovery. In 1983, the decline in global output of agricultural products was almost entirely due to the United States' Payment-in-Kind (PIK) program and drought — other countries generally produced large crops. Subsidized competition from other exporters, particularly the Economic Community (EC), remains a problem, as do import restrictions. And the dollar is now even stronger than it was last year.

One of our major accomplishments last year was the signing of a new Soviet grains agreement. For FY 1984-88, the Soviet Union must purchase a minimum of nine million metric tons of U.S. wheat and corn annually. Up to one million tons of the minimum can be satisfied by purchases of 500,000 tons of soybeans and/or soybean meal. During any year of the agreement the Soviet Union may purchase an additional three million tons of wheat and corn without prior consultation. We are confident that this new agreement will enable us to sell more grain over the five-year period, and will help to rebuild our reputation as a reliable supplier.

We are continuing our efforts to further increase exports with an aggressive export sales policy, expanded sales promotion, provision of credit and personal representations. However, the rate of recovery in exports over the next few years will also depend on such factors as the value of the dollar and general world economic conditions.

Fiscal 1985 Budget Proposals

The USDA program budget, representing the total value of all of the goods and services provided by the Department, which reached $71.9 billion in fiscal year 1983, is now projected at $62.4 billion for fiscal year 1984, and $56.4 billion in 1985. Outlays, which totalled $46.4 billion in 1983, are estimated at $34.8 billion in 1984 and $37.7 billion in 1985. The 1985 increase is largely the result of an anticipated increase in outlays for farm price support activities because we expect a return to more normal production patterns for the 1984 crops. Our appropriation request for fiscal year 1985 is $33.0 billion compared to $34.2 billion in fiscal year 1984.

Export Market Development

I want to re-emphasize that further expansion of U.S. agricultural commodity exports continues to be a top priority of this Administration. With the world economy on the road to recovery, we believe that the export credit guarantee program should remain at a high level at least through the current fiscal year. Because of this, we have increased the program estimate to $4 billion for fiscal year 1984 and for fiscal year 1985, we are planning a $3.0 billion program. Flexibility exists to adjust the credit guarantee level to meet changes in economic or competitive conditions. Over the period fiscal year 1983 through fiscal year 1985, the Administration will have made available over $12 billion in export credit compared to a total of only $14 billion of credit provided by the program over its 27 year history prior to fiscal year 1983. We also plan to continue to operate a blended credit program in fiscal years 1984 and 1985. During the last fiscal year, guarantees under this program were allocated to provide for the financing of about 23 million tons of U.S. agricultural exports, and thus far this fiscal year guarantees have been made available to finance shipments totalling some 19 million tons. Blended credit financing for last fiscal year was just over $1 billion to sell about 6 million tons of products to 16 countries. Thus far this fiscal year, some $850 million has been allocated to be used by Morocco, Egypt, Algeria and Tunisia to import U.S. wheat, which is in surplus and under heavy competitive pressure in export markets.

We are proposing an increase of $6 million in the market development and foreign agricultural affairs programs of the Foreign Agricultural Service (FAS). These FAS functions are critical to the successful development of new trade opportunities that will result from the world economic recovery. We plan to continue to emphasize the country/commodity combinations that show the most potential for the biggest pay-off in long-term growth in our agricultural exports.

The proposed increases will also enable us to further pursue trade access issues, particularly with the European Community (EC). You are undoubtedly aware that the EC's budget has come under enormous strain, primarily due to their system of encouraging noneconomic production, restricting imports and subsidizing exports. Rather than making the necessary internal readjustments, some parties have proposed the institution of new trade barriers, which would have the effect of destroying important U.S. markets. We are determined to prevent this from happening.

Another important aspect of our overall export effort is the P.L. 480 program. For fiscal year 1984, we are seeking an urgent supplemental of $90 million to provide emergency food assistance to Africa, bringing the Title II program level to $740 million. We are also asking for a supplemental of $25 million in Title I to finance food assistance to Central American countries to help reduce nutritional deficiencies. The P.L. 480 request for fiscal year 1985 is a program level of $1.671 billion, or $34 million more than the proposed fiscal year 1984 level. We are seeking an increase of $124 million in the Title I/III concessional sales program, which has been very successful in the long-term development of commercial markets. The Title II program would be at $650 million, an amount sufficient to ship the statutory minimum 1.7 million metric tons, grain equivalent.

Commodity Credit Corporation (CCC)

CCC outlays in fiscal years 1984 and 1985 are expected to be well below the record $18.9 billion of fiscal year 1983, primarily due to the PIK program and the drought. Fiscal year 1984 outlays are projected at only $6.8 billion, and fiscal year 1985 outlays, at $10.8 billion. These outlay estimates are tentative, of course, and will fluctuate due to economic and weather conditions here and abroad. Our fiscal year 1985 appropriation request of $8.7 billion will complete the restoration of anticipated fiscal year 1984 losses.

We have two legislative proposals that affect the CCC. We will continue to seek authority to freeze target prices. It makes no sense to continue to escalate target prices and encourage greater production on the heels of the largest acreage reduction program in U.S. history. Holding 1985-crop target prices to the 1984 levels will save an estimated $1.9 billion in fiscal year 1986. We will also continue to request legislation that will make the honey price support program discretionary. Honey price support levels have become so high that U.S. production is moving into CCC stocks while U.S. honey users are buying cheaper imported honey.

Credit Programs

Reductions in federal credit programs are necessary to reduce Government spending and Treasury borrowing, and to encourage increased private investment and future productivity. Accordingly, USDA's overall level of credit activities will be reduced in fiscal year 1985. However, the reductions for fiscal year 1985 will vary among programs, and some programs will be increased.

For the CCC, Farmers Home and REA credit programs, we expect to reduce the overall level of new loans made or guaranteed from about $25 billion in fiscal year 1984 to slightly more than $18 billion in fiscal year 1985. Despite the reduction in program level, the total value of loans outstanding will increase from $130 billion at the end of fiscal year 1984 to over $138 billion at the end of fiscal year 1985. Clearly, the Department of Agriculture will continue to be a significant supplier of credit for rural America.

Farmers Home Administration

Farm Programs. FmHA's regular farm operating and farm ownership loan programs remain the mainstay of the agency's role as lender of last resort. We are proposing to increase the farm operating loan program substantially for the fourth year in a row. The increase in fiscal year 1985 of $160 million provides a farm operating loan level of $2.07 billion, more than twice the operating loan level of fiscal year 1981. The farm ownership loan level will be reduced by $25 million to $650 million. Several smaller farm loan programs will be terminated in order to provide improved servicing of the farm ownership and operating loan programs.

Our estimate for the emergency disaster loan program in fiscal year 1985 is $870 million, down from $2 billion in fiscal year 1984. This reduction reflects the combined impact of legislation approved in 1980 which requires that the loans be made only for actual losses and not for annual operating expenses, and an expected reduction from the high level of fiscal year 1984 disaster loans which resulted from 1983 crop drought losses.

No funds are requested for the economic emergency loan program. Authorization of this program has expired. During 1984, however, $600 million will remain available in accordance with a recent court ruling requiring that the program be reopened in fiscal year 1984.

Rural Housing. We are proposing reductions of about $1 billion in FmHA's rural housing loan and grant programs. The 1983 reauthorization made various changes in these programs to ensure that the housing needs of the lowest income families would have priority. Some of the new provisions are reflected in the fiscal year 1985 budget, others will take longer to implement.

Community Development. FmHA's community development programs are proposed at the same levels recommended in last year's budget: $250 million and $90 million for the water and waste disposal loan and grant programs, respectively, and $100 million for the community facility loan program. We are making a minor change in the program regulations to ensure that more low income communities that require low interest loans can qualify for them. The majority of available grant assistance will also be directed toward low income communities. All assistance will be limited to projects that are essential to the health and safety of rural residents, with preference given to the smaller communities.

Rural Electric and Telephone

Reductions are proposed for the electric and telephone loan programs of the Rural Electrification Administration (REA). A significantly reduced demand for new power supply projects makes it possible to reduce loan guarantees from $3.2 billion in fiscal year 1984 to $1.2 billion in fiscal year 1985.

We are again proposing that the direct electric loan program be reduced from $850 million to $500 million; and the direct telephone loan program be reduced from $250 million to $75 million. We believe that the majority of these borrowers can obtain increased proportions of their capital from commercial sources without imposing significantly higher costs on their customers.

We are also proposing legislation to provide for the long-term self-sufficiency of the Rural Electrification and Telephone Revolving Fund. The interest rate on insured electric and telephone loans would be based on the cost of Treasury borrowing; the supplemental financing criteria would be based on the borrowers' financial capabilities; the eligibility for Rural Telephone Bank loans would be expanded to all telephone borrowers; and REA programs would be brought on budget.

Crop Insurance

We will continue to expand the availability of risk protection provided to farmers through the federal crop insurance program. In crop year 1984 insurance will be available for all acreage in crops previously covered by disaster payments and the individual yield coverage plan will be given greater emphasis. Coverage will be extended to 34 commodities in 3,000 agricultural counties in 49 states. We expect producers' participation to improve considerably — from about 15 percent in crop year 1983 to 20 percent in crop year 1984, and to 24 percent in crop year 1985.

For fiscal year 1985, we are requesting $227 million for administrative and operating expenses, an increase of $27 million over fiscal year 1984, and $141 million for premium subsidies, an increase of $56 million over fiscal year 1984.

The drought of 1983 is creating a large cash drain on the Federal Crop Insurance Corporation revolving fund. Therefore, the Corporation is requesting a supplemental in fiscal year 1984 for emergency Treasury borrowing, which is needed to replenish the revolving fund. Current projections indicate that without the supplemental, cash flow problems could slow the payment of indemnities this spring.

Soil and Water Conservation Programs

The budget proposes $725 million for the Department's soil and water conservation programs. Funding for technical assistance, soil surveys, research and analysis will be continued at about the fiscal year 1984 level. Funding for watershed construction and financial assistance is reduced by $244 million, about 50 percent.

Technical assistance in geographic areas where soil erosion problems are the most serious will be maintained, and in some areas increased. Other programs — the Agricultural Conservation Program (ACP), watershed construction, and the Resources Conservation and Development Program -- are slated for reductions.

The Administration continues to seek separate funding for the Colorado River Salinity Program. A $12.6 million request would be used for cost-sharing, technical assistance and education to make improvements in irrigation systems and thereby reduce salt loading in the Colorado River System.

Also, we are offering, on a pilot basis, funding for conversion to permanent grass or tree cover to producers who sign up for the 1984 commodity programs. The land will continue to be counted as base acreage history for purposes of the commodity programs. A portion of fiscal year 1984 Agricultural Conservation Program funds, $20 million, is available for cost-sharing the establishment of the vegetative cover.

Forest Service

The fiscal year 1985 program level proposed in the Forest Service budget is just over $2 billion, a $26 million increase over the fiscal year 1984 current estimate. This total includes an $80 million increase in Payments to States.

Even though spending for on-the-ground programs is not being increased, receipts generated from Forest Service lands are expected to increase nearly 20 percent. This is primarily because we anticipate improved rates of harvesting of timber under contract and rising income from oil and gas leases. It reflects both improvement in the economy, and efforts of this Administration to bring the American people a return from the public lands.

The fiscal year 1985 budget calls for a timber sales level and anticipates a timber harvest rate of 11.2 billion board feet. We anticipate that despite the Administration's five-year extension policy some volumes will be defaulted. Thus, we anticipate a 1985 probability of re-offering 200 to 400 million board feet from defaulted sales. These re-offerings would be in addition to the 11.2 billion board feet of new sales.

The budget also includes funds for advance work on sales to be offered after fiscal year 1985. Cuts are proposed in the Research and State and Private Forestry programs.

Research and Extension

Support for research and education activities continues to be a major goal of the Administration. Increases are proposed in the traditional research and extension formula programs and for a major new biotechnology initiative utilizing competitive grants. We are also requesting increases for the Agriculture Research Service (ARS) and the National Agricultural Library (NAL).

A major new biotechnology initiative of $28.5 million is proposed for the Cooperative State Research Service (CSRS) competitive research grants program to encourage all qualified scientists to study agricultural applications of new technologies, such as genetic engineering, so that the most basic plant and animal life processes can be better understood.

Marketing and Inspection Programs

In November 1983, a major outbreak of highly pathogenic avian influenza occurred in several counties in Pennsylvania. While the disease is still limited primarily to Pennsylvania, smaller outbreaks were discovered in New Jersey, Maryland, and Virginia. Because this disease was threatening the entire poultry industry, I declared an extraordinary emergency and made Federal funds and personnel available. So far, $61.7 million of CCC funds has been made available for avian influenza eradication. The Animal and Plant Health Inspection Service is responsible for carrying out the program and for coordinating this effort with the affected States and the industry. We are confident that the most serious of the outbreaks have been dealt with successfully and expect that complete eradication will be accomplished in the near future.

For fiscal year 1985, the brucellosis program will continue at about the same level as in fiscal year 1984. However, we are proposing to institute a checkoff system whereby producers would assume a larger role in the program's financing. Collected fees would be used to pay for indemnities and other administrative costs and would save the Department nearly $26 million in fiscal year 1985.

We will be working closely with the Congress and industry to develop a mutually acceptable system.

A reduction of $12.3 million is being proposed for the screwworm program in fiscal year 1985. We expect to complete the quarantine barrier in southern Mexico by the end of 1984 and the Department's future funding needs will be substantially reduced.

We are also proposing to reduce the Federal Government's involvement in several pest and disease control programs where the pests are either localized, the states have the capability of conducting the programs, or technology is not currently available to prevent the spread of the pest. Programs in this category include gypsy moth, witchweed and imported fire ant. In addition, the budget proposes new legislation to authorize the Department to charge user fees for inspecting plants and plant products before export, for issuing health certificates for export animals, and for certain costs associated with quarantining animals being imported into the U.S. These user fees will provide annual savings of $3.6 million.

For the Food Safety and Inspection Service we are taking steps to further ensure that our nation's food supply is wholesome and unadulterated, and that consumer confidence remains high. Additional funds are being requested to enhance industry compliance, strengthen the integrity of the inspection program, and offset rising costs in state meat and poultry inspection programs. We are also resubmitting legislation that would allow us to use our processing inspection personnel more efficiently.

Domestic Feeding Programs

Before discussing our proposals for the domestic food assistance programs, I want to emphasize the Department's continuing concern that food assistance be provided to needy Americans. Although it is often implied that the food programs have been cut back under this Administration, quite the opposite is true. In fact, during fiscal year 1983 the federal food programs cost over $19 billion, a 38 percent increase over the fiscal year 1980 level. Furthermore, the programs are better targeted — over 90 percent of food stamp households have incomes below the poverty line and the majority of school lunch funds are going to low-income students. Also, President Reagan initiated in December 1981 and is continuing the distribution of excess commodities from the CCC inventories. Over $1.4 billion of CCC commodities were distributed in fiscal year 1983. We are now reviewing and evaluating the recommendations of the Task Force on Food Assistance in an effort to further improve these programs.

Food Stamp Program. For fiscal year 1984 we are requesting a $308 million supplemental for the Food Stamp Program to allow for full payments to all eligible recipients for the full fiscal year. This will increase the fiscal year 1984 funding level to $11.3 billion. For fiscal year 1985, we are requesting a funding level of $10.8 billion. This request is below the fiscal year 1984 level because lower unemployment is expected to reduce program participation, and because the Administration is proposing legislative changes expected to improve program administration and achieve savings.

These include a provision to automatically qualify households in Aid to Families with Dependent Children (AFDC) program for the Food Stamp program and a provision to require that all states institute a program to require that all able-bodied food stamp recipients to perform public service work equal to the value of the food stamp allotment. We are also proposing that states be held liable for the cost of overpayments above a three percent error level.

Child Nutrition Programs. The Department is requesting a supplemental of $545.5 million for the Child Nutrition Programs (CNP) for fiscal year 1984, bringing total funding to $3.6 billion. Unexpected program growth has made the initial $3 billion appropriation sufficient only until mid-May.

The budget request for the CNP in fiscal year 1985 is $3.7 billion, $116.8 million more than the estimated fiscal year 1984 funding level. We anticipate increased program participation in all categories of meals. We are submitting several minor legislative proposals for the school programs which will not alter the basic program structure.

For the nonschool programs, the Administration is proposing a Non-School Food Program Grant which would consolidate funding for the Child Care Food Program and the Summer Food Service Program at the fiscal year 1985 current services level.

Congress appropriated funds to operate the Women, Infants, Children (WIC) program through July 10, 1984. The Administration is requesting a supplemental of $167.0 million to continue the WIC program for the rest of fiscal year 1984. In fiscal year 1985, the Administration is requesting a program level of $1.25 billion for the WIC program, a small reduction from the fiscal year 1984 program level of $1.27 billion.

The Commodity Supplemental Food Program, Special Milk Program and the Food Donations Program will be carried out at about the fiscal year 1984 program levels.

Other Domestic Food Assistance Activities. We are again proposing to transfer the Nutrition Program for the Elderly to the Department of Health and Human Services (DHHS). The program originated as a commodity outlet; however, the legislation was revised in 1977 to allow the delivery of cash in lieu of commodities. Now, over 90 percent of the program is on a cash basis.

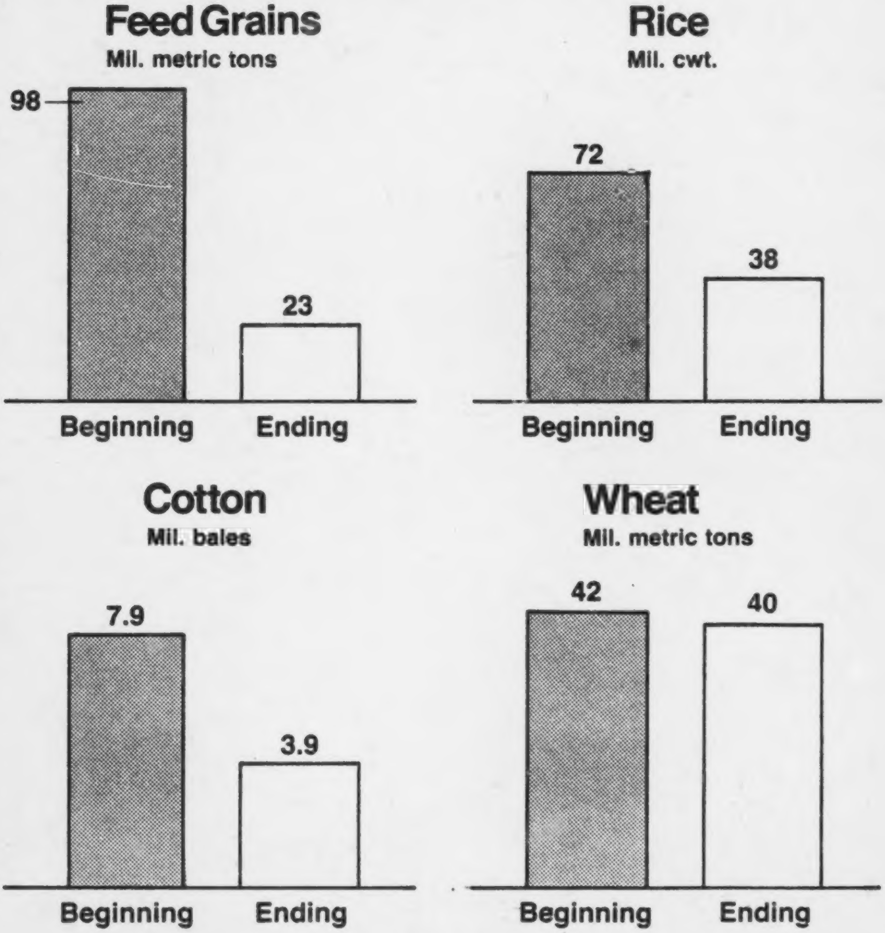
We are continuing to provide additional support to many of the food assistance programs in the form of donated commodities. The donated commodities are those acquired either through our surplus removal efforts (Section 32) or through the price support operations of the CCC. The commodities are given to schools, charitable institutions, soup kitchens or food banks. The Department's budget request for fiscal year 1985 includes $50 million to assist states with storage and distribution costs related to the donated commodities.

Mr. Chairman, this concludes my formal statement. I appreciate the opportunity to discuss agriculture programs and the Department's fiscal year 1985 budget proposals with the Committee and look forward to working with you.

I will be happy to address any specific concerns that you have.

Beginning and Ending Stock Levels for the 1983 Marketing Year

(December 1983 estimates)

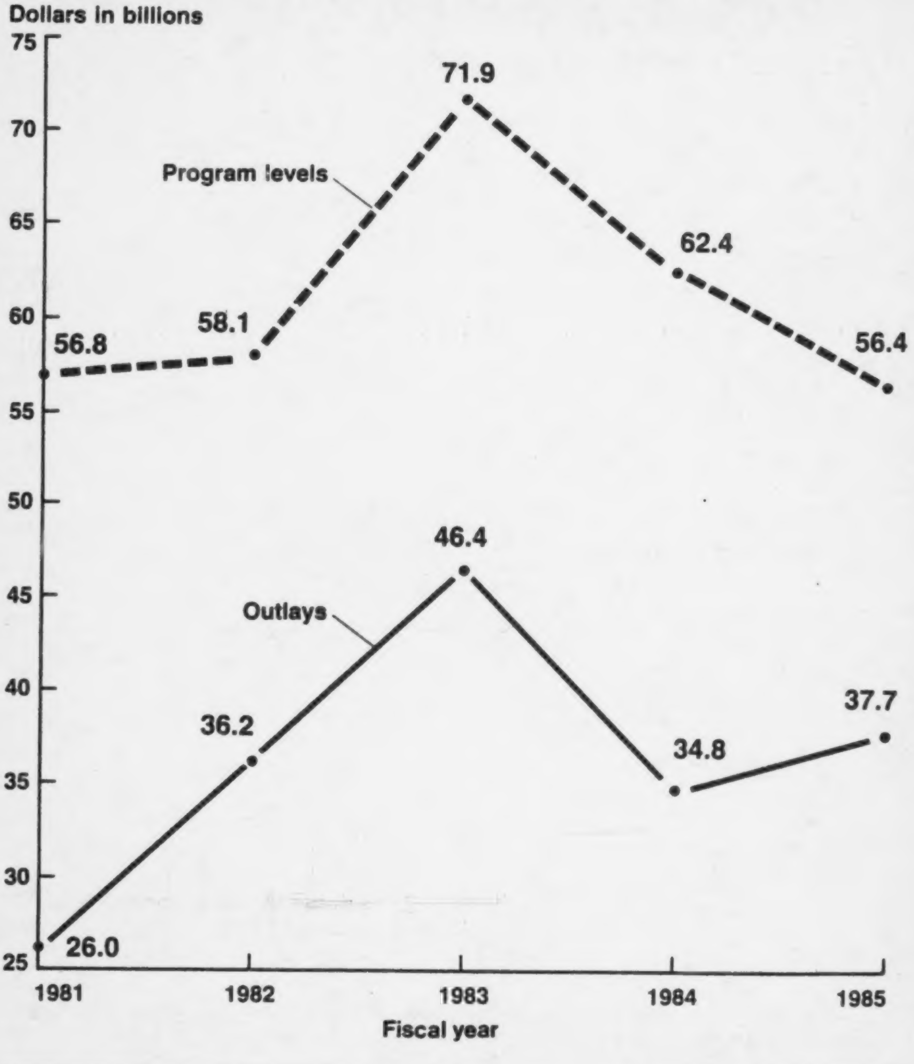

Feed Grains

Rice

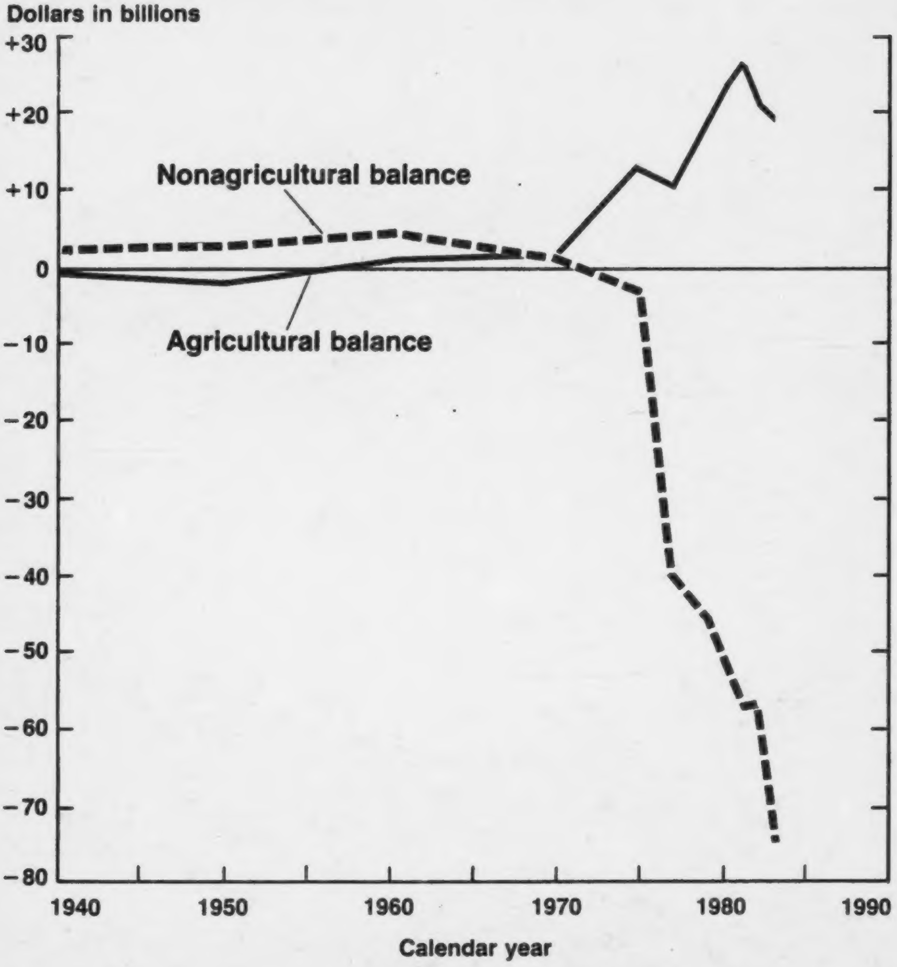
Cotton

Wheat

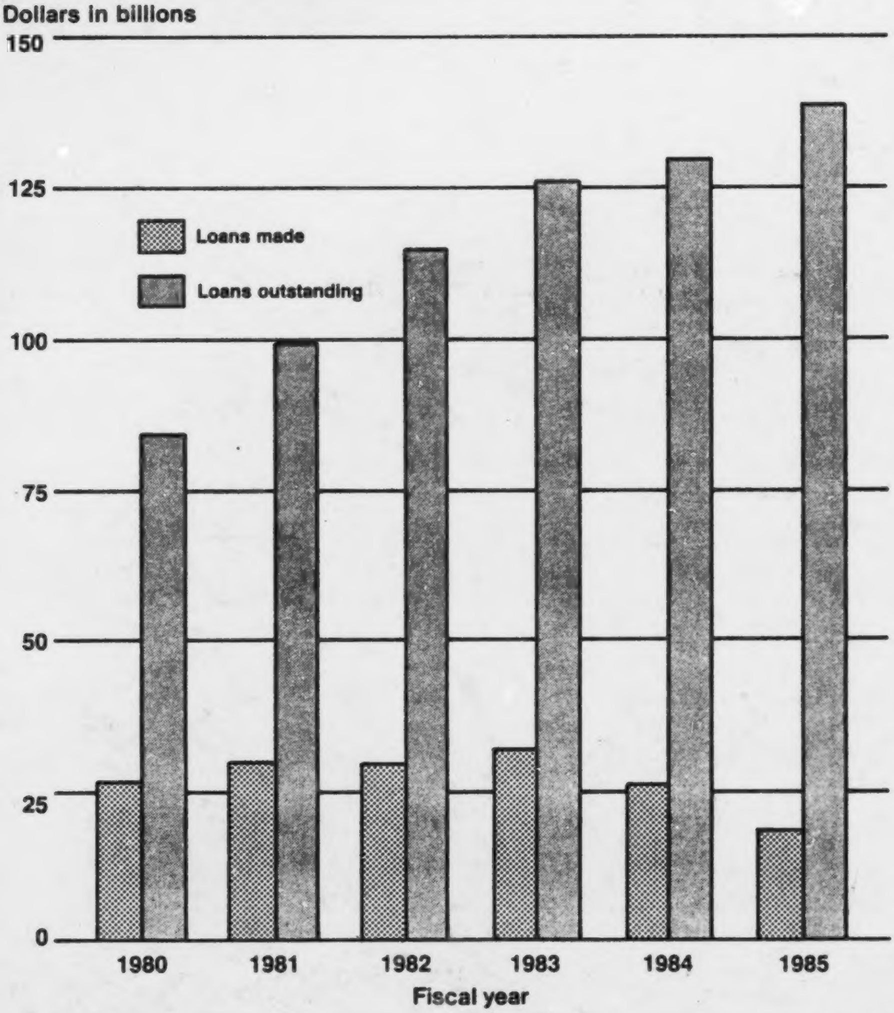
USDA Program Levels and Outlays



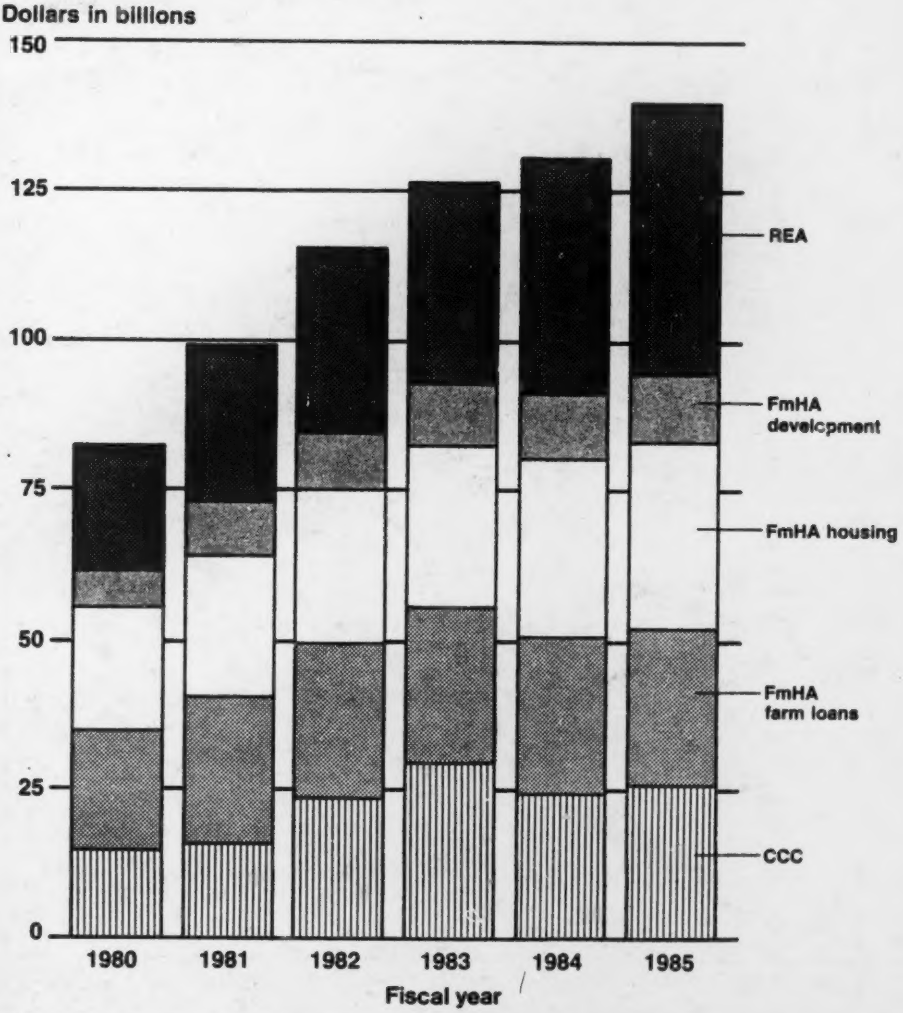
Agricultural and Nonagricultural Trade Balance



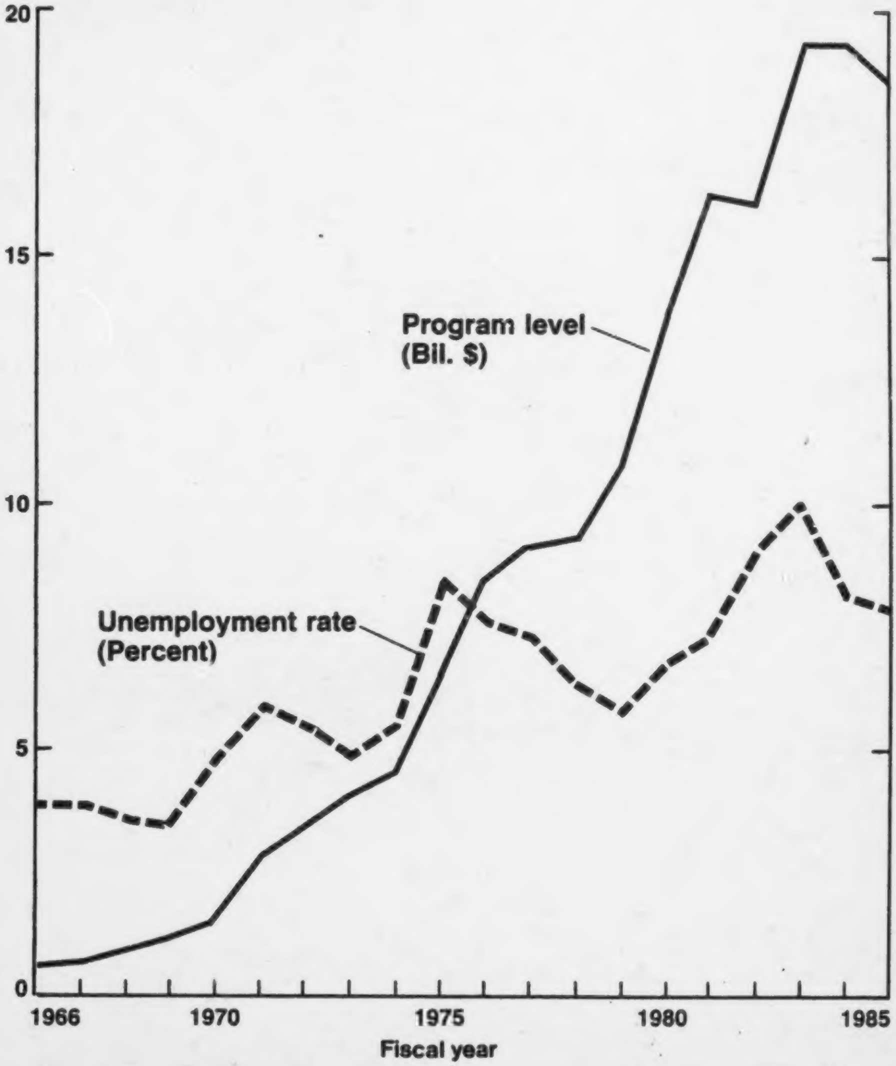
Value of Loans Made and Outstanding



Loans Outstanding by Program or Agency

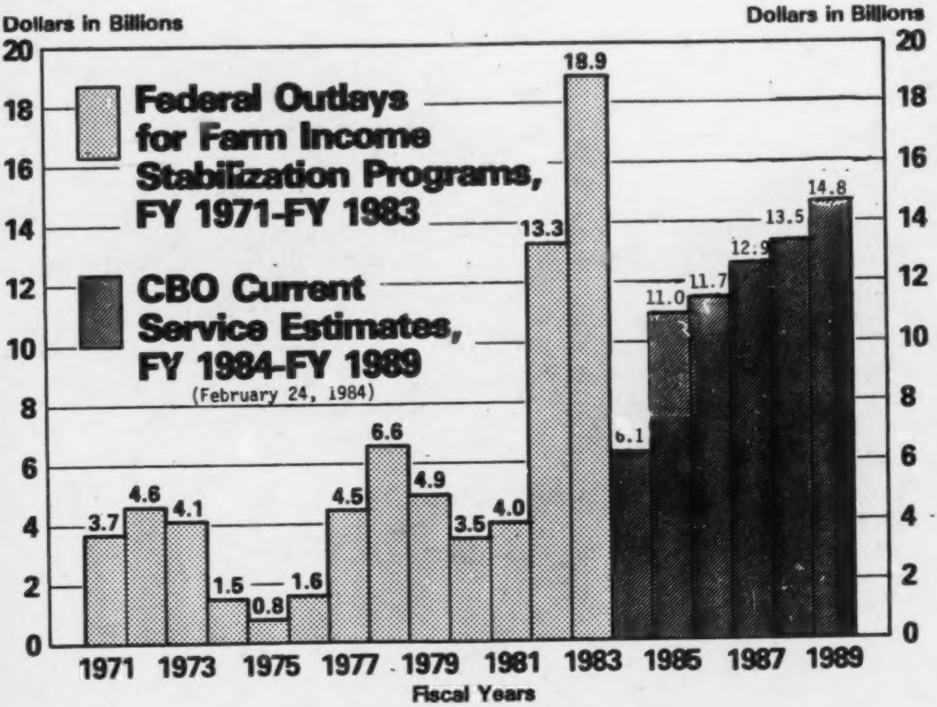


Food Assistance



TARGET PRICE SUPPORTS

Senator Quayle. I was just looking at our chart here. I see a dramatic decline and then I see escalations in CBO's definitely pointing in an upward direction.



U.S. Senate Budget Committee

Are you satisfied that that is the direction that we ought to be going or do you think that something that we might be able to do this year or obviously in 1985 that we may be able to stabilize those upward graphs which are going up and which may even be more than what CBO estimates?

Secretary Block. One reason those—as you see in 1984 we come down dramatically as I pointed out.

Senator Quayle. And then you go back up.

Secretary Block. And then it goes back up in 1985 and it continues to go up and some of this—a lot of this increase is under the assumption that we continue these target prices in the incline that they have been on and we cannot afford to do that. We have been trying to get them frozen because they just are not good policy. And if we can get them frozen, that will not look like that and we are going to write a new farm bill in 1985. So I think 1987, 1988, and 1989 especially is primarily speculation. But you have to go with something. But I hope we can write better farm policy than we wrote in 1981.

FREEZE TARGET PRICE SUPPORTS AT 1984 LEVEL

Senator **Quayle**. If you freeze the target price supports at the levels—what levels do you think they should be frozen?

Secretary **Block**. I think that we would have to freeze them at the 1984 level primarily. In the discussions that the administration has had with the Senate Agricultural Committee, boils down to this, we have agreed that the feed grains program is locked up for 1984. The rice program, the cotton program are locked up. They are not going to change and we are just telling the farmers to get in and sign up for those programs and participate.

WHEAT PROGRAM STILL IN STATE OF FLUX

The wheat program is still in a state of flux, and so there could be a reduced target price in 1984 with some diversion payments in exchange.

But after 1984, everything stays at 1984 levels with the possible exception of wheat, which is still up in the air.

Senator **Quayle**. So in other words, you are saying that if anything is done this year, the only thing that is going to be done is in the wheat program?

Secretary **Block**. Yes, if anything is done on this year's crops it is only wheat. But the target prices for all programs can be frozen for 1985.

Senator **Quayle**. But you can do that in 1984.

Secretary **Block**. Yes.

DEAL WITH ALL PROGRAMS

Senator **Quayle**. In other words, you can freeze the program for 1985 in 1984. In other words, if in fact, if you recall last week the Boren amendment, the resolution that passed the Senate, which I voted in opposition to because I did not think that was just going to deal with wheat, which I thought was just going to deal with wheat and forget everything else.

We are interested in corn and feed grains and some of the other things.

But you are saying that if in fact something is done this year, which is a question mark, it will be more comprehensive than just wheat?

Secretary **Block**. That is right. In fact, that is what I have insisted upon. I do not want to just deal with wheat. I want to deal with all of them.

Senator **Quayle**. OK.

Now, if you deal with all of them and if in fact you get a freeze say in 1984 for wheat, maybe with some diversion, and you get a freeze that the other programs at 1985 levels for what, a 3-year period of time?

Secretary **Block**. At the 1984 level for the 1985 crop.

SAVINGS REALIZED FROM FREEZING 1985 CROP

Senator **Quayle**. For the 1985 crop. But what kind of savings do you have over this, say fiscal year 1985 through 1989.

Secretary **Block**. If we get everything frozen at the 1984 level for the 1985 crop, we save $1.9 billion.

Senator **Quayle**. In what year?

Secretary **Block**. In fiscal year 1986.

Senator **Quayle**. So in other words you will not get any real savings until 1986?

Secretary **Block**. No; you do not.

Senator **Quayle**. Is that right?

Secretary **Block**. Yes.

Senator **Quayle**. You do not get any——

Secretary **Block**. You do not get it until fiscal year 1986. And the reason is that a program action that affects the 1985 crop is not really felt until the following fiscal year. So it is fiscal year 1986 when the savings occur. The farm program action that we took in 1983 with PIK was not really felt until this fiscal year where we have this dramatic savings. It is the following fiscal year that you feel the program action in terms of savings or expense, depending on what you do.

SAVINGS FROM 3-YEAR FREEZE

Senator **Quayle**. OK. So we start savings in 1986. Now we have a 3-year freeze from 1986 through 1989. Do you have any figure what that might save?

Secretary **Block**. If we were to adopt this freeze that we are working on with the Senate, the package would save about $3 billion through fiscal 1987. We did not go through fiscal 1988 or 1989.

Senator **Quayle**. Are you optimistic that you are going to get this agreement?

Secretary **Block**. I do not know. That remains to be seen.

Listen, I have been up this Hill several times.

Senator **Quayle**. That does not sound terribly optimistic to me.

Secretary **Block**. I do not want to paint it that way. I am just saying that we have been up the Hill a few times but we have never been able to get over the top. But we will find out.

Senator **Quayle**. But you will still keep trying?

Secretary **Block**. We do not give up easily.

MINORITY OF PRODUCERS RECEIVING MAJORITY OF INCOME BENEFITS

Senator **Quayle**. You do not give up easily.

Let me read you a statement here and see if you can shed some light to it.

The findings indicate that small producers who account for over 30 percent of all producers in 1982 received only 4.2 percent of all direct payments. Large producers accounting for less than 1 percent of total producers received over 7 percent of the payments.

Now then, this mix, where you really have a minority of producers receiving a majority of the income benefits, is this troublesome to you; and if so, what can we do to sort of change the mix there?

Secretary **Block**. I do not know where they draw the line between large and small, but that is really not the problem. The objective of the program was to reduce production and you do not reduce production unless you get big acres out. You cannot get big acres out unless you go to the big producers, and you cannot get the big producers to take big acres out unless they are given big compensation. It is as simple as that. If you are going to achieve the objective, you have to provide big compensation to big producers to take out big acres.

As I look to the longer range future and the 1985 farm bill I have to ask if the public is prepared to continue to do things like this. I am not so sure they are. But that is a question we will find out when we work on the 1985 farm bill.

Senator **Quayle**. Well, that is some of the criticism that has been brought up.

Secretary **Block**. Sure, I hear the criticism.

Senator **Quayle**. And I think——

Secretary **Block**. That is just the way it is.

Senator **Quayle**. I do not think we need to address—if that is the way it is, and there is no answer to it——

Secretary **Block**. If you just pay small payments——

Senator **Quayle**. We have to be politically sensitive to this.

Secretary **Block**. Oh, absolutely.

TARGET HELP TO THE MOST NEEDY

Senator **Quayle**. To do these things again, and who is going to be the benefactors of the various programs, because that gets to the sort of question who really needs to help, Mr. Secretary, when you look at the farm program, and you really are going to be looking at a scarcity of resources not only this year but you talk about freezing, but should we be more specific and more selective and zero in on who really does need the help on income support, income security to the farmers in our country to keep the agricultural base that is so sensitive to our country and the balance of payments and everything else.

Secretary **Block**. Well, that is a very hard thing to sort out. I think you will find that there are some large commercial farmers that have leveraged themselves and I am not really critical of them that much, because they responded to the challenge of the seventies to raise more and feed the world. And everyone was saying that we would not be able to raise enough to feed the world and some of them have gotten into trouble. And so they probably are hurting. You have got some medium- to smaller-sized farmers that are suffering because maybe they do not have enough cash flow, a large enough volume of production to make it. And then there are the very small farmers who have off-farm jobs to supplement their income. They may be the most secure, but they are the smallest. They do not depend as much on the farm income for their livelihood.

So they are all over the board and one of the problems that we are going to have when we write a 1985 bill is to try and target this assistance to farmers. It is easy to say we are going to target to the most needy, the ones that need it the most, and not give the commercial farmers support. Maybe that is the way it will turn out. But it is going to be a very interesting process, let me tell you.

Senator **Quayle**. Well, I think it is something that is exceedingly important because of the political parameters that we are really going to be restrained to and those political parameters and the baseline that there is a limitation of the amount of resources. And if we do not go through this sorting out process, which I know that is underway and maybe we can have some more factual documentation and understanding by the time we get around to writing this comprehensive farm bill, and I am just looking at those figures, even though we dropped off in 1983 and 1984, that is still going back up.

You are looking at—I cannot add it up, what is it, somewhere around $70 billion in those years. That is a lot of money, particularly with the deficit hemorrhage that we have got going on. And I think we need your help in working and trying to sanitize how we can more direct our assistance in the efficient expenditures of the taxpayers' dollars.

That is why I have raised that question and from a Budget Committee point of view, we are sensitive to it.

Secretary BLOCK. We have a limited amount of resources for the total Government and everyone is going to have to be restricted in how much of that pie they get. And agriculture is not going to be an exception. You are absolutely right.

BASIC PROBLEM WITH DAIRY PROGRAM

Senator QUAYLE. Let me just ask one other question and then I will yield to Senator Andrews.

The dairy program. I was home Monday and met with about five or six dairy farmers and everyone of them said they did not like the new program at all and I said that is interesting. I had voted against it. It finally passed, but all the national co-ops basically had supported that.

But what is the basic problem with the dairy program? Why cannot we ever get one that appears to work that is going to satisfy the needs that we have? I mean—and you look at the budget impact and that is, we are spending what, 3.3, something like that, over $3 billion; what is the figure?

Secretary BLOCK. It was more than $2 billion in fiscal 1983, but in fiscal 1984 we are projecting about $1.5 billion.

Senator QUAYLE. More than 2. $2.7 billion is quite a lot.

What is the basic problem in getting a workable dairy program, because I can tell you back in Indiana they are not satisfied, the dairy farmers that I talked to are absolutely not satisfied with the present program.

Secretary BLOCK. Well, it all started—the Government is at fault, frankly, because the Government raised the price support level on dairy in 1977. Farmers responded to that price support increase by milking more cows. We have not gotten it shut off yet, even though we froze the support level in 1981 and now have a program that provides for a $1.50 cut in the price support level if CCC purchases remain high. Farmers have not as yet fully responded to the reduced incentives. But there is a little lag time here. It all goes back to the farm programs sending the wrong signal to the dairymen and the dairymen just plain responded to that signal, that guarantee.

That will be another question when we write this new farm legislation. We will have to ask a lot of difficult questions. Is the best dairy program a program where the Federal Government is obligated to buy up the surpluses? That is a good question. That is the way the law is right now. Buy them up and store them.

REDUCED PRICE SUPPORT LEVEL ESSENTIAL

Senator **Quayle**. The one thing that we should do in the 1985 farm bill, the dairy program, we look at the expenditures, are you saying reducing price support; is that essentially what you are saying?

Secretary **Block**. I think a reduced price support level is essential because otherwise you are not going to get farmers to decide they do not want to milk as many cows. The legislation that was passed last fall, although it had some elements that I was not very excited about, and you say the dairymen did not like it very much, does provide for a reduction in the price support from $13.10 per hundredweight down to $11.60 per hundredweight by July 1, 1985 if surpluses remain high. That should send a signal to some dairymen who might be thinking about coming into the business that it is not as lucrative and profitable as it was before.

I am not sure that that kind of support price cut is enough to discourage production. It may be. I guess we are going to have to wait and see. I would not anticipate any new dairy legislative initiatives between now and the 1985 farm bill.

FLEXIBILITY NEEDED IN PRICE SUPPORTS

Senator **Quayle**. Let me just ask one final question and then I will yield.

I think it was Mr. Lesher's testimony I read a couple of weeks ago, I think the House or Senate Agricultural Committee, talking about—maybe you had spoken about this issue to—about flexibility which you would like to have the Secretary of Agriculture receive. You did not address that.

Would you like to see some more flexibility in how these—instead of having the rigidity, the price supports in 1981 carried through for 4 years if we should have some ranges, maybe 20 or 30 percent range and if you would have that flexibility would you be able to say that there would be certain amount of savings that could be instituted?

Secretary **Block**. There would be savings, and I think we would have better policy. Farmers would not be getting as many wrong signals. If we had had that flexibility, we would have lowered the price support on dairy products much sooner. We would have sent the right signal sooner to the dairymen.

Furthermore, we would not have allowed the target prices to escalate as much as they have because I think that they sent the wrong signal to grain farmers. Grain farmers are plowing up virgin land in response to target prices that tell them that it is profitable to plow that land and farm it and bring it into the program and I think that the Government is sending some wrong signals to the producers. If the Secretary had more discretion, he would be able to avoid automatic, legislated target price increases.

Senator **Quayle**. I think that to me, and I have not looked at that much, the other side of the argument, but within certain amount of ranges, it makes a great deal of sense to me and I think it might encourage you to look at that and maybe advocate that a little bit stronger because I think there is some possibility and there is also some thinking here, you know, we have gone through, there is an amendment on the floor to Senator Armstrong and Senator Long talking about rescission and deferrals, quasi-impoundment-type things that have come up, and I think it can probably pass the Senate today. Senator Baker indicates that it could. And this goes along the line with what you are talking about.

So I think that there is some political support up here for that type of approach and I think it directly relates to the budget impact and I would just urge you to perhaps advocate that a little bit more forcefully, if in fact you really think it is going to do what you indicated it is going to do, that it has positive impact.

Senator Exon.

AGRICULTURE HAS NOT SHARED IN THE ECONOMIC RECOVERY

Senator **Exon**. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I am glad you are here.

Those of us who are concerned about agriculture and family-sized farmers are optimistic by nature and if we were not optimistic, I guess many of our food producers would have given up a long time ago.

However, as we look to the future, Mr. Secretary, I do not believe we can look at it through rose-colored glasses and I am afraid that your testimony this morning is so rose-colored that it may take us beyond the area of reason.

Now, you start out by saying the U.S. agricultural sector has benefited from the recovery in many ways.

The facts that I have just simply do not agree with that at all, Mr. Secretary. If there is one sector of our economy that has not shared in the economic recovery it is agriculture. I think they are the most disaffected of the so-called economic recovery which I think is very selective. It is certainly true that agriculture has not shared, has it, in the economic recovery as many of our other industries?

Secretary **Block**. Well, Senator, I am not here to tell you that agriculture has fully recovered from the recession and from the difficult times that we have had because agriculture has not. I think we are all quite aware of that. But we have made some progress. In fact, I think we have made considerable progress.

We got into the situation by paying 21-percent interest and there is nothing legal that I know of where you can make 21 percent.

INTEREST RATE FOR MOST FARMERS

Senator **Exon**. Now, wait a minute. Let us try to be reasonable in our figures. I want to try to be reasonable on my figures.

How many farmers in Illinois pay 21-percent interest? Now, I can speak for Nebraska. I cannot speak for Illinois.

The going rate for most farmers in even those high interest times was about 18 percent, is not that closer than 21?

Secretary **Block**. It is true, they paid about 18½ percent.

Senator **Exon**. OK, then let us use 18 and not the 21 figure.

Secretary Block. Right.

Anyway, 18 is a very high percentage anyway. We could not make it on that and I think we both agree on that.

Senator Exon. And what are they paying today, just so we can agree. I know it's about 14 percent.

Secretary Block. About 13½ percent.

Senator Exon. Which is still—I said 14, but OK.

Secretary Block. But it is still too high, you and I both agree on that too. But agriculture got into a lot of difficulty paying those rates, they are not down enough yet. The worldwide recession which has hurt our demand for our product, domestic recession frankly has hurt demand for beef and some of our other products there. And two big crops that caused large surpluses for this country.

OVERALL CROP AND LIVESTOCK PRICES ARE UP

Now the question is: Are we doing any better now? Have we made some progress? And I am just saying I think we have. Crop prices are up 20 percent from a year ago, livestock prices are up 6 percent.

Senator Exon. Wait a minute. Some crop prices are up.

Secretary Block. I know.

Senator Exon. What about wheat? They are not up 20 percent.

Secretary Block. Wheat would not be. But I am just talking overall.

I guess maybe in response to your concern, I need to concede that there are some commodities that have not done as well as others in some States and counties. The progress is uneven as it probably almost would be. The drought hurt farmers in a very uneven fashion nationwide last year. But yet overall crop prices are up 20 percent and livestock prices are up 6 percent. We are projecting net farm income this year to be near a record over $30 billion, up from $22 billion 2 years ago. And these are good progressive steps. We have stabilized our exports. We are not exploding yet with exports but we are not going down any more this year; in dollar terms we are going up and in terms of volume it is going to be about a flat wash. And I think that things are looking better and I think that the figures will indicate they are. But that does not mean there are not individuals who are not still hurting. I know that some of yours are because we talked about it yesterday and the day before.

FARM INCOME

Senator Exon. Mr. Secretary, just to kind of keep this all in perspective, let me ask this question:

You say here in the third page of your testimony:

> The economic recovery, together with the PIK program, has led to higher net farm income. Net farm income, which was $22.1 billion in calendar year 1982, rose to an estimated $22 to 24 billion in calendar year 1983. In 1984, net farm income may climb to $29 billion to $34 billion.

I think when you came up with that figure, you put your rose-colored optimistic glasses on that you were probably born with as a very young farmer. I agree. I hope it is up to that. I suspect it will not be.

But let us say—let us take this situation. Right now, aside from income which we could argue about, speculating into the future, what is the net worth today of the average farmer? Is it lower or is it higher than it was 4 years ago?

Secretary BLOCK. I do not know.

Senator EXON. Well, I know. What about your net income? You are a farmer. Is your net worth larger or smaller than it was 4 years ago?

Secretary BLOCK. I am guessing that it is about the same over that period of time.

AGRICULTURAL LAND VALUES

Senator EXON. You have not had the drop in land values in Illinois that we have had in Nebraska.

Secretary BLOCK. Well, we had a pretty severe one and it has tended to stabilize in Illinois. I think that you will probably find that it may be probably roughly flat and in cases, certainly in cases it could be down and in some cases up some, but not much.

Senator EXON. How much are land values off, rural agricultural land values off in the State of Illinois on average from 4 years ago?

Secretary BLOCK. I would be guessing but I would say they are probably off about 7 or 8 percent or 10 percent. Probably 10 percent. I would say 10 percent.

Senator EXON. If I——

Secretary BLOCK. You may have a figure there.

ECONOMIC RECOVERY HAS NOT BENEFITED FAMILY-SIZED FARMER

Senator EXON. While he is looking that over, let us go to another situation.

I have been advised by everybody that I have talked to that while there are some differences, the land values in the State of Nebraska are off at least 30 percent in the last 4 years and it may be that Illinois is not off that much. If they are only off 10 percent as you just estimated, then I am delighted to hear that. That is not the case in Nebraska. That is not the case in most of our food producing States. And what I keep getting back to is that I really believe that as the Secretary of Agriculture, you should not only project what you think the net income of farmers will be in the year ahead but I think you have an obligation to look and see what is happening to the net balance sheet, the net worth of farmers. And I think, Mr. Secretary, that you will find that it is off dramatically over 4 years ago or to put it another way, the economic recovery after the disastrous recession has not benefited the family-sized farmer and I think that you will find that he is in much worse shape today.

I want to simply say, Mr. Secretary, I do not believe that there is a concern and there may not be the understanding that there is a cancer of crisis, a cancer of crisis spreading across the land for our family-sized food producers, not unlike the 1930's. And I simply am not being dramatic. I am simply saying that I do not think the Federal Reserve Board, nor the Department of Agriculture understand the depth of seriousness. You say in another part of your statement here that credit is good. Credit is fine.

CREDIT SITUATION IS TERRIBLE

Credit is terrible. You say among—along the improvement the net farm income there has been an improvement in the farm credit situation.

Mr. Secretary, this is simply not true. There is a disaster out there. It is not that the banks that supply farmers do not have the money, they have money running out of their ears. But because of the net worth of farmers, and the fact that they cannot sell their products profitably overseas, coupled with the fact that interest rates are 14 percent when they used to be 18 percent—let me put it another way.

John Block as a farmer, I suspect, and most other farmers of the United States, were far, far better off, at least at that time 4 years ago when they were paying 18 percent interest rates and we had inflation, because at least at that time they had the appreciation in their land values that were continuing and their net worth today is down dramatically over what it was 4 years ago. And I think that that should come into play as we try and fashion a farm program with the help of you and those of us who are concerned about this in the future.

TRYING TO ADJUST TO CHANGE IN EXPECTATIONS

Secretary **Block**. Senator, I know that there was a lot of optimism as we emerged from the 1970s. The inflationary spiral and the excitement about an endless demand for our product really was spurring people on. It created speculative demand for product and everything else associated with agriculture. But it was a wild scene of speculation and excitement about the future that just never materialized for all of us. And that everyone set back a little bit, including the total economy of this country and now we are all trying to adjust to a change in expectations. And it is not easy for agriculture as it is not easy for other segments of the economy. And I fully understand what you are saying and I know that some of the specific problems that you are talking about exist. I know that there are those, but I am optimistic that with the statistics I have quoted that there is an indication things can start looking up. We are trying to recover from the worldwide recession and domestic recession. We tried to bridge it with the PIK program. We have provided more credit than ever before for exports and for farmers. This should keep them in business until the recession is over and things pick up. I look forward to working with you on a new farm program and a new policy to help this industry.

Senator **Exon**. Thank you.

PRESIDENT AWARE OF FARMERS PROBLEMS

My time is up, Mr. Chairman, but let me make one last statement and maybe you can answer it as we proceed. Maybe we will have a second round.

I am very much concerned, Mr. Secretary, that some of the things that you might want to do as Secretary of Agriculture—and I have known you a long time and we have been in farm meetings together way back to when I was Governor and I have always found you at least reasonable to talk to and a man who would at least listen to us.

I wonder how effective your message is getting through?

Second, I am still concerned about what is going on today and I wonder if the President of the United States, who has an awful lot of things on his mind, is attuned to the crisis that we are facing out there today. And that is why I take issue with the optimistic rose-colored glasses approach that you have taken.

If I could—if I can have him answer this question, Mr. Chairman.

Have you discussed the situation as I view it with the President or have you simply told him that things are just looking great as your statement indicates? And if the President is not informed, then I suspect that we are not going to have the hammer that the President can put on the Director of the Office of Management and Budget and others to get through farm programs that maybe you and I would like to see.

Is the President informed on this situation?

Secretary **Block**. Let me just say that I did not inform him, as you suggest, in the way that you have described it. But I think I gave him a balanced review of the situation, and he is fully aware of the difficulties that agriculture faces. He realizes that we are not out of the woods yet. But I think he has had a balanced review of the situation and is continuing to watch the total economy of this country develop, the small businessmen along with agriculture. And I think he knows.

Senator **Exon**. My time is up.

Senator **Andrews** [presiding]. Mr. Secretary, I think you have undoubtedly notified him and you are getting much better vibes from him or you would not have been able to sit with us as you have for the last week offering significant changes in the various programs, because it shows a real movement and we want to tell you how much we appreciate that sense of new urgency and sense of willingness to accept change on the part of the administration. It has been very helpful. It would be my hope that in the Agricultural Committee this afternoon that we will be able to pass out this improved farm bill that with the exception of a couple of holdouts, has been pretty generally, as you know, agreed to.

ECONOMICS STIMULATE THE MILKING OF COWS

I would like to clear up a couple of things that—since there are press in the room and all, it was mentioned earlier that the comment was made on the dairy program and of coarse you mentioned that price supports on milk products are high. You get back to which comes first, the chicken or the egg? Really as a practical farmer, is it your feeling that price supports on dairy products are being too high or is it that the price of feed has gone to such a low level that farmers are making a mad clamor to process that feed through dairy cows in order to sell his milk, because even though it is less then—considerably less than full parity for milk, is not as low as the relationship of parity is in the case of feed.

Have not low feed prices stimulated the milking of cows over the last 4 years?

Secretary **Block**. Neither one will stimulate the milking of cows. It is a question of pure economics from the standpoint of the dairyman when he talks to his banker.

Senator **Andrews**. But if in fact we did begin to achieve a greater export number in feed and the rest, and the price of beef rose somewhat, the dairy surplus would begin to take care of itself.

Secretry **Block**. Yes, sir.

PLOWING OF VIRGIN LAND

Senator **Andrews**. One other thing, when we are talking about this whole situation of plowing virgin land. Nothing hurts those of us who are farmers. I am a third generation farmer, Mr. Secretary, you are a farmer, we talked many times. Our operations are not that dissimilar although we farm in really different parts of the country.

Do not you have—and this was a surprise to me, when in response to Senator Quayle, you talked about the plowing up of virgin land. How can a farmer plow virgin land and put it in the program? The program is based on past history.

Is it true that a farmer can plow up some land that has never been in crops and then join the program and sign up?

Secretary **Block**. He cannot the first year, but he can plow it up and farm it for a period of time, and then it will become eligible.

Senator **Andrews**. You have no discretion under the law to stop that?

Secretary **Block**. No, sir. I think the second year it becomes eligible. I am not sure. Yes, the second year.

Senator **Andrews**. You are not going on a history of 2 years or 3 years past.

Mr. **Lesher**. No, but if they only have 1 year, then it is 1 year.

Senator **Andrews**. Could you change that administratively? Do not you have the legal right to go back to 3 years?

Secretary **Block**. We do not think we do. We can check that for you.

Mr. **Lesher**. I do not believe so.

Senator **Andrews**. I think a lot of people would be supportive if you are trying to find a way to go back and say if this did not have a history, and I know we have gone from the old frozen history of a decade or more ago to a moving average, but I thought that moving average was over the last 3 to 4 years.

Secretary **Block**. Just a year alone.

Senator **Andrews**. Well, we would welcome, I am sure on the Senate Agricultural Committee, I am sure Senator Exon feels as I do and other members would, we would welcome any suggested change from you as to how we might make a simple change in the law that would preclude that kind of profiteering that is so devastating to our soil heritage.

PROPOSED BUDGET PROVIDES LESS IN DIRECT CREDITS

In your budget that you are presenting today to the Budget Committee, Mr. Secretary, how do you go about encouraging agricultural exports? In the changes you have been authorizing to our study group that is going to be convened this afternoon, you sharply increase various incentives for export. Now, we applaud you for that. Obviously you think that it is necessary.

Does the budget that you are presenting provide adequate leeway to accomodate that initiative?

Secretary **Block**. The budget that we are talking about here this morning does not provide as much in the way of direct credits, Public Law 480 or in the form of the guaranteed credit credits, GSM 102, that is what we have been talking about in our discussions this week on adjusting a midcourse adjustment in the farm programs. But keep in mind that we are talking about in our discussions with the committee making some changes in prices and effectively using some of the savings in target prices to spend in export initiatives.

Frankly, I think that is the right thing to do. I think we should be saving some money.

Senator **Andrews**. The Senators on both sides of the aisle have been agreeing with you.

Secretary **Block**. Yes, they have, and I think the thing to do is to save some money on these direct payments and use a portion of it in selling more product or export initiatives I think that the farmers will applaud this kind of endeavor. Is working on the demand side of this thing rather than the other side of the equation which is your supply side.

ENHANCE EXPORTS WITH PIK MONEY

Senator **Andrews**. In fact, some farm experts, Mr. Secretary, have said that if we had spent a share of that PIK money last year to enhance exports, we might have achieved more benefit, not just to the farm family but to the overall economy than we did with straight production controls paid for by PIK. And evidently you feel the same way or you would not be making these suggestions that are being received so well by the farm sector of our Nation. But there is leeway and latitude within the budget presentation that you are making to accommodate that and you will, if Congress moves on what may well come out of the Ag Committee this afternoon, you will have your people notify the Budget Committee of the shifts in emphasis within the total overall budget amount for the next fiscal year.

Senator **Block**. Yes, sir.

Senator **Andrews**. Do you still support a $50,000 PIK cap?

Secretary **Block**. Well, it is almost immaterial where I stand on that question because last year we were able to avoid the $50,000 limitation by the way we designed the PIK program. But the courts ruled against us on that question and they are in control now. GAO said that we could not do it and we have not challenged that.

KEEPING BIG FARMERS FROM GETTING BIG PAYMENTS

Senator ANDREWS. How then do we avoid the problem of having the smaller farmers make the bulk of the cuts while the larger farmers have market prices influenced upward by the program taking the gravy.

Secretary BLOCK. This is one of the dilemmas that we face. It will happen just like you suggest, to some extent. Senator Quayle asked a lot of questions about how do we keep big farmers from getting big payments and this is a dilemma that the Agriculture Committee and the administration is going to have to deal with when we work on the 1985 farm bill.

I think it is going to be a very contentious issue.

Senator ANDREWS. It certainly will be. The point is, if you do not get the big ones into the program, you take a disproportionate cut of the small ones and you do not pay for the cut as much as they would make gross farming it. So they are the ones that take it on the chin while the big ones waltz by free. And in a sense, the payment limitation people might even be said to be enhancing the economic opportunity for the big boys at the expense of the smaller producers.

Is that the feeling that you have to a certain degree?

Secretary BLOCK. That could be argued.

Senator ANDREWS. I have been one who has been supporting payment limitations in the past but we seem to have a different arithmetic today than we had 4 to 5 years ago.

The North Dakota Commissioner of Agriculture, Mr. Secretary, recently sent you a telegram urging you to direct ASCS offices to provide 50-percent advanced deficiency payments upon sign up for farm programs.

If the package now before this study group of Senators, that the Ag Committee will take a look at this afternoon goes into effect, will that happen?

Secretary BLOCK. No, sir, we will not be doing that. The diversion payment will be paid but not the deficiency.

DIVERSION PAYMENTS WILL BE PAID

Senator ANDREWS. But the diversion payments will be paid and will give a rather sharp infusion of cash into agriculture that would not otherwise be there this spring?

Secretary BLOCK. Yes, sir, that should help.

Senator ANDREWS. And that is a change.

What is your best estimate on how we can adjust the budget in a way to allow our farmers to economically survive while continuing to support the overall economic future of the country; what in a couple of minutes——

Secretary BLOCK. That is what I was wondering, how I answer that question?

Senator ANDREWS. Well, we have been running around the bushes on all these little nitpicking things and I just kind of thought that maybe now after three years of sitting in that hot seat, you might have some brief ray of, shall we say commonsense ability to share with us as sharply concise view of where we could go?

Secretary BLOCK. Well, I think just very quickly that it always pays to look toward programs that will keep agriculture competitive and not price ourselves out of a market. And also, it is to our advantage to look toward efforts to sell products rather than efforts that might just end up providing payments or restricting production excessively.

My attitude is reasonable support but yet more of a market orientation as we look to the future.

Senator ANDREWS. In other words, your thrust would be that you would rather move in the direction of using what Federal cash is put into the system to impact on greater opportunities for sales overseas than you would on using that cash to cut back production domestically?

Secretary BLOCK. Yes, sir; I think that is the best approach.

SOME REDUCTIONS POSSIBLE IN WIC CASELOAD

Senator ANDREWS. How do you explain, Mr. Secretary, that the President's own Task Force on Hunger recommended that the current WIC caseload be maintained but now your proposed budget comes up calling for major reductions in the caseload? Does this square with the administration's intent or which side of the administration did we go with on this recommendation?

Secretary BLOCK. Well, first of all, I would point out that the task force report and its acceptance by the President came to us about the time the budget went to print. We may find it necessary to make some adjustments, but in the case of the WIC program, specifically, we are looking toward some reductions in the needs, because the economy is strengthening and improving. Unemployment has dropped, and we think that that could be helpful in the needs for the WIC program.

Senator ANDREWS. But you are telling in a sense, if I understood what I heard, that since the task force which was accepted, the report, came after the budget went to print that it might well supersede the budget figures that we now have in front of us.

Secretary BLOCK. Well, I am not saying that, necessarily, because we are still reviewing the task force report and still deciding.

Senator ANDREWS. I am not trying to——

Secretary BLOCK. Certainly I am saying that there may be room for adjustment as a result of that task force in some areas because the President was quite dissatisfied with the task force.

Senator ANDREWS. How do you account for the discrepancy between the USDA's 2.8 million level of participation when for the past 5 months participation has been up to the 3 million level?

Secretary BLOCK. If the need stays there, we are asking for $167 million supplemental for the program to fund it for the entire year. If the demand is there, and if the need is there, it may be that we will need more than $167 million. But that is the amount the budget estimated at the time the budget was formulated.

Senator ANDREWS. Those of us who serve on this committee, Mr. Secretary, have listened to our colleague Mr. Hollings, Senator Hollings tell us about how wise and constructive the investments in WIC programs is and with that thought in mind, of course we look back to the 1981 food nutrition service report that said WIC participation is associated with a positive and significant impact on health and nutritional status. And we have no quarrel with that.

Have there been any significant developments between then and now that might cause FNS to view the program in another light?

Secretary BLOCK. Not that I can point to, Senator.

DEBT COLLECTION

Senator ANDREWS. We recently had a Federal judge hand down an opinion chastizing the Farmers Home Administration for high-handed practices in collection foreclosure in the termination of debtor farmers.

What steps have you taken to assure nationwide uniformity and adherence to Farmers Home Administration Commission to end this lawlessness by the Farmers Home Administration?

Secretary BLOCK. We are following the directives of the Court to insure that producers are properly notified and properly counseled on their loans. We have about 270,000 borrowers, and we have provided special help to 65,000 of those borrowers. We are working with them, and I assure you that we are going to do all that we can to minimize the casualties of Farmers Home because I think that during these difficult times that is our obligation.

Senator ANDREWS. And you are finding that you are being able to transfer in extra manpower to take care of the heavier caseloads that turn up in certain parts?

Secretary BLOCK. We are doing that, but I will be very honest with you and tell you that the caseload has been very, very heavy because of the disaster, the drought. Half of the counties in the United States were declared disaster areas last year, and we have had a very heavy caseload. We have been adding employees ,and we sent new regulations to the field also to satisfy the Court's directive.

Senator ANDREWS. But you are aware of the problem and are doing what you can to solve that?

Secretary BLOCK. Yes, sir.

GUARANTEED LOANS PUT BANKS BACK IN BUSINESS

Senator ANDREWS. Why was the mixture of guaranteed loans and insured loans changed so that the overwhelming majority of farmers have had to seek guaranteed loans at higher prices in this package we have been talking about for the last 2 weeks; that mix has been shifting back, so obviously you have seen the need to make a change.

Why did you initiate this other action in the first place?

Secretary BLOCK. We really do believe that the best approach is the guaranteed loan approach. That puts your banks back in business. In some parts of the country the banks are not in business very much. We think if we could get the commercial lending institutions more involved it would take some of the load off our shoulders.

Senator ANDREWS. Have you encountered any reluctance of the banks to take on these Farmers Home loans, Mr. Secretary?

Secretary BLOCK. In some cases there is quite a bit of excitement about getting more heavily involved in this lending activity. But in others, they have been somewhat reluctant to get into it because they are not so sure, how long they will have an opportunity to serve in this way.

Senator ANDREWS. What would you say the percentage, shall we say, reluctance on the part of the banks to participate? Is it a case where half the banks refuse to participate or only 5 or 10 percent? What I am trying to drive at is it widespread?

Secretary BLOCK. We have not had as many States interested in this as we had hoped. I think Nebraska has been one that has been more excited about it than the others, Senator, because the banking institutions out there wanted to deal with it.

Senator EXON. Can I interject just one thought here?

Senator ANDREWS. I would be glad to.

Senator EXON. And then I would like to ask some other questions.

Yes, Mr. Secretary, there was grave concern in Nebraska in this area and since I tried to be objective I would say that there are some cases that have been reported to me where the Farmers Home Administration has been very forthcoming and very helpful in certain areas. I have just the opposite reports in other areas.

CRISIS TEAMS HAVE BEEN FORMED

I believe that the Secretary has recently indicated and put some more people in the Farmers Home offices in Nebraska to try and expedite the paperwork, the banking industry has supplied some money to hire some people, we are jammed up out there and I suppose they are jammed up in other States with just the processing of these things. And I encourage you to do even more in that area, Mr. Secretary.

Secretary BLOCK. We formed three or four crisis teams that we will send to a State within 24 hours if there is a problem there. We will try to get problems ironed out because this is such a critical time for these producers to get their finances lined up so that they are ready to farm this spring.

Senator ANDREWS. And because in certain areas there is this reluctance on the part of the banks, which I anticipate in your answer that you are trying to take care of but have not resolved as yet. Will you, if this new agreement is put together, since the money is already appropriated, move as expeditiously as possible to get that direct loan money in the field?

Secretary BLOCK. Yes, sir, we will move very quickly.

Senator ANDREWS. Do not you have the authority to do that right now?

Secretary BLOCK. We are going to do the agreement first.

Senator ANDREWS. Well, I know that.

Mr. Secretary, do not you have that ability right now?

Secretary BLOCK. I do have the ability to do it, yes, sir.

Senator ANDREWS. Let us say we get a couple of hard noses that do not let that agreement, which many of us from agriculture think should go forward do not let it go forward. Then some of these things are going to be up to you to move on as expediously as possible and we would hope, Mr. Secretary, that having recognized the need out there, that you will move to be responsive to it as quickly as possible.

Secretary **Block**. Senator, I was assuming that you are going to be able to handle those difficult Senators and bring them around.

Senator **Andrews**. Well, you saw me down at the end of the table.

Secretary **Block**. You were doing great yesterday there. I was proud of you.

Senator **Andrews**. It has been little difficult but most are coming on board.

Senator Exon?

Senator **Exon**. Thank you, Mr. Chairman.

Mr. Secretary, I think all too often we get boxed in with our concern for stopgap programs, but I think you agree with me above and beyond everything else that if we could have a steady farm proqram that the farmers knew what was coming and their financial backers knew what was coming over an extended period of time, but at least they could try and make their decision much better rather than the stop and go on farm program situations they seemingly are confronted with.

Speaking about new initiatives in this area, sometimes I—in fact for a long time I have been concerned about the fact that we have had a tendency to treat the genius of production of our family-sized farmers as just a terrible thing. Just really bad that they are such excellent and efficient producers.

FORM A FOOD-FOR-PEACE PLAN

I suggested to the President in letter form and otherwise, I think you know about it, maybe a new initiative, thinking beyond the horizon if you will, about using our ability, our farmers' ability to produce food, you know, food-for-peace plan of some type and specifically I suggested that why do not we tie-in food-for-peace initiative with our present attemps to entice the Russian bear down that road to some kind of a common understanding for reduction in armaments, especially ICBM's? Certainly the Soviets do not need oil, they are self-sufficient in energy. Certainly they do not need gold, they are the second largest gold producer in the world, certainly they do not need more armaments, certainly it is in the interest of the people of the United States and the people of the Soviet Union and their two governments to get together on some kind of an understanding, verifiable, call it what you will, to break down the arms buildup. Why would not it be a good idea to use food-for-peace plan, somewhat along the lines of getting them to agree to arms reduction to tie it in with the long-term agreement for both raw and finished food products even to the extent of tying in some new initiatives to get a break in the arms reduction talks in Geneva by the President saying we would consider a long-term proposal for raw and finished food products along the lines, if necessary, that we would subsidize our farmers wheat, for example, or corn or what have you at 10 cents a bushel below the world price in a long-term agreement with the Soviet Union. That would establish an attractive price level, it would provide something that the Soviets really need.

They do not need the other things that I talked about but they do need food.

You have had some dealings with the Soviet Union and I was glad to see that you at least got some increase through in sales to them.

If we gave them a break above and beyond the favored nation trade status, would not that—could not that have a—maybe a possible break in this present icy jam that we have with them over arms negotiations? Would not that be a good idea?

NO SPECIAL PRIVILEGE FOR SOVIET UNION

Secretary BLOCK. Well, Senator, I think we all want to see some kind of breakthrough in our arms negotiations but I do not think that you can offer some special privilege to the Soviet Union. We have got a lot of close friends and allies that would like to have a special privilege, too. Take Japan for instance, a huge customer of ours. I do not think you can go out and reach to a country that we have been in worldwide contest with and give them some kind of special treatment. I think the fact that we have a new agreement with them providing a 50-percent increase in minimums and that we have proven to be a reliable supplier in the last few years, I think that is encouraging to them and I do think, I really do agree with you that our agricultural bounty that this country has is truly a blessing. We need to use it more effectively as a tool for peace in trading with countries and sharing our technology. And I think it can be very useful.

Our recent trip to Algeria is a good example of that. I was there in January and we signed a memorandum of understanding with that country. And 4 or 5 years ago we were hardly trading with them or doing much of anything. But we signed a memorandum of understanding to strengthen our trade relationship. We culminated a million metric ton wheat credit sale to Algeria. We signed an agreement to cooperate in agricultural technology and there are some exciting things on the horizon there. And I think it is agriculture as you suggested, used as a tool for peace and also selling products for the American farmer.

Senator EXON. Mr. Secretary, again I think our thinking is narrow. I think it is not imaginative. When you start talking about—what country was it you just mentioned?

Secretary BLOCK. Algeria.

MICROSCOPIC ATTITUDE DEMONSTRATED

Senator EXON. Algeria. OK. Friendly country.

When you start talking about trade with Algeria, and I am talking about trade with the Soviet Union, I think it demonstrates the microscopic, if you will pardon the expression, attitude that we have.

Now, you mention Japan, they would not like it if we did something like that. If there is anybody that is trading us out of our socks, including agricultural products as you know very well, it is the Japanese. Now, what I am trying to do is to enlarge the scope of this thinking. What you are really saying is that it would be unfair for us to offer some kind of an incentive, especially to the

Soviet Union. I say that would only go into effect if and when we can get an arms reduction, that would be good for all of mankind. And I say to you that it would certainly—we could certainly provide an awful lot of wheat, corn, feedgrains, red meat, and rice and cotton and everything else that the Soviets need by subsidizing our farmers 10 cents a bushel below whatever the world price is. And it is a lot cheaper than building MX missiles, for example.

What I am trying to say is let us not talk just about trade with countries. I am glad that you are doing trading with some of these countries. What I am trying to say is cannot we figure out some way to use our great food-producing ability of our farmers to help us out?

COW-CALF OPERATORS HARD HIT BY DROUGHT

On to another subject. Mr. Secretary, one group that has been particularly hard hit by the drought are the cow-calf operators. I think you are aware of that. The USDA's latest edition of economic indicators of the farm sector shows that in 1982 only 37 cents per brood cow was available after total cash expenses were paid. When capital replacement costs were considered there was a net outflow, I emphasize outflow, of over $61 per cow and their residual return or loss to management and risk was a minus $289 per cow in 1982.

What do you see for the cow-calf operator with the rather optimistic presentation that you made earlier this morning?

Secretary Block. I think even the beef cattle industry would concede that prices of cattle have been stronger recently and the indications are that they are going to be even stronger later in the year. So there is some room for optimism in the beef industry.

DROP FORECASTED FOR AGRICULTURAL EXPORT VOLUME

Senator Exon. Mr. Secretary, you gave us a pretty rosy report earlier on the chances for further exports of agricultural products and yet I call your attention to the USDA outlook and situation summary of January 19, 1984. That forecasts a 3-percent drop in agricultural export volume in fiscal year 1983.

How do you reconcile that with your statement, other than I suppose, you are going to say we are going to get a higher price and therefore what dollars are going to be—you are not forecasting, are you, that we are going to have an increase in bushels?

Secretary Block. There is not going to be an increase in bushels this year but it is going to be about a washout in terms of volume.

Last year we did have though a decrease as we had the year before.

Senator Exon. Turning to another matter, getting back to the reserve program, I think you know, Mr. Secretary, that for the first time since 1979 you as Secretary of Agriculture have not allowed farmers to put their crops into the farmer-owed reserve without first putting them through a 9-month nonrecourse loan program.

Why is that? And why are you not allowing direct entry into the reserve from the 1984 wheat crop, for example, if direct entry were allowed, would not that be beneficial to the farmer?

Secretary Block. We did allow direct entry 1 year and I think that was 1982. We did allow it 1 year but we got so much in and the stocks were so great that it does not look like a very good idea to keep building these reserve stocks. And so we changed the policy on that.

AGENCY EMPLOYEES BUY FARMLAND TURNED DOWN TO FARMERS

Senator EXON. One last question and then I will thank the Secretary for his patience in coming here this morning.

Getting back to the Farmers Home Administration, since you are from Illinois and know Illinois very well, I am sure you are familiar with the February 24, I believe it was, this year's story in the Decatur Herald Review that indicated that some Farmers Home Administration employees had purchased farmland after first acting in their official capacity for the agency in turning down loan requests from farmers who intended to purchase the same land. This happened right down in the home county of Director Charles Shuman.

First, I want to know whether or not this is true, whether that report was true? And if it is true, I think you would agree that that tends to lessen the respect for and the confidence in the Farmers Home Administration by farmers. And if it is true, what have you done to insure that something like this will not happen in the future?

Secretary BLOCK. I have directed the Inspector General to investigate the situation and report accordingly.

Senator EXON. And what has he reported back?

Secretary BLOCK. He has not reported to me as yet.

Senator EXON. He has not reported?

Secretary BLOCK. No.

Senator EXON. When can we expect that report?

Secretary BLOCK. It should be soon. I will make that report available through the Inspector General upon completion of the investigation.

Senator EXON. I would hope so. For the record, I would like to ask for that. And if that could be made available to us, I would hope that we could get on this very rapidly indeed, because I think with all the difficulties that we are having with the Farmers Home Administration today we ought to straighten that out as quickly as we can. And if there is wrongdoing there, I assume that you will take appropriate action.

Thank you, Mr. Secretary. Thank you Mr. Chairman.

FARM PROGRAMS RUN BY GOVERNMENT ARE UNSUCCESSFUL

Senator SYMMS [presiding]. Thank you very much, Senator, and Mr. Secretary and Mr. Lesher. I apologize, I was not here to listen to your testimony.

Mr. Secretary, as you know, my general philosophy about farm programs is that the proper role for the Government is to try to help us export, and to help our national balance of payments. The programs that we devise where the Government tries to run things have proven over the last 50 years, to be unsuccessful. I come from the produce business, and we have always said that we have the best Government program there is in the produce business, because there is not one. If we produce too much, the price is cheap, and it works its way out to next year because the nature of those crops is perishable. This situation is somewhat different than with some of the grain crops that carry over from year to year.

COMMODITY DISTRIBUTION SYSTEM

There is one issue which involves your Department that I would like to bring to your attention that relates to that philosophy of government non-intervention. My colleague Senator McClure and I have worked for years, when I was over in the House and when he was here in the Senate, with other Congressmen and Senators to attempt to obtain a fair study of cash or commodity letters of credit as an alternative to the commodity distribution system.

Do you recall we met with you shortly after you took office on this issue, and the logic behind it was simply that the school lunch directors tell us that they can purchase food locally through the distribution system such as all food service organizations, private or otherwise do. And, it is the most cost efficient way to perform this service, and would eliminate the Federal Government's distribution and warehousing system that now overlaps the private sector.

It seems to me like this study would be consistent with the philosophies of this Department. But for some reason, and whether it is your concerns about emergency management programs and disasters or whether it is the pressures received from the powerful farm sectors involved in overproduction, I do not know, but we still continue to have this food distribution system that USDA operates. Further, we never seem to be able to scuttle that and move into a cash in lieu of commodities.

Now, Congress directed USDA to do a 3-year study of all cash and all letters of credit versus commodity distribution.

My first question is:

What did the USDA do? My understanding is that your Department has ignored the language of that study and has distributed bonus commodities to school districts that were receiving cash and letters of credit. This action cost participating school districts over $600,000, despite and Congress establishing a 3-year program, so that the bona fide results would come out in a study. There again, you know my question—did USDA approve that. What was the distribution of it, and then could you explain the proposed recission, of the study's third year that intends to eliminate some of the school districts, one of which happens to be Boise, Idaho. The people in Boise love the program, and yet it is being eliminated. Is it because it costs too much or because of pressures from commodity groups? I have heard you say, Mr. Secretary, that we have got the best food production and distribution system of any nation in the world through the free enterprise system. Yet why is USDA so recalcitrant about using it?

Secretary BLOCK. I cannot answer some of the details of your question.

I would say that the study that has been under way is due to be completed this year, as I understand it, and we should have those results. So far as I know those results should tell us something.

ADMINISTRATION CONTINUES TO RESIST PRIVATIZATION

Senator **Symms**. Well, I am told by my senior colleague that he grandfathered this in, on one of the agriculture appropriation bills. He feels that USDA is ignoring what the Congress is directing. It was not too long ago when Senator Biden and I were both here and we had a fellow named Peter Grace before this committee sitting in the seat that you are in and he was a dynamo in this room. What I am talking about is privatizing programs that the Government cannot operate as effectively as the private sector. We want the students to eat the lunches that the taxpayers are subsidizing. We are told that local nutritionists, and they all tell me this, are able to put lunches on the table that children will eat if they are given the flexibility. But sometimes when they receive a big box of commodities, it does not really fit into the diet or the ethnic preference or whatever of the particular students. Consequently, there is plate waste.

Why would this administration, who seems to talk of privatization, continue to resist it?

Secretary **Block**. We are going to get an accurate study.

Our position to date however has been that we are not prepared to move to a cash out as long as we have large surpluses of commodities and also as long as we keep hearing from school districts that do not want to move to a cash out system.

CASH IS FAVORED IN LIEU OF COMMODITIES

Senator **Symms**. I have to be honest with you. I have had one school nutritionist from my State who tells me that she likes the commodity program. The overwhelming numbers of the others would like to go to cash in lieu of commodities the way it is done in Boise, and the Boise people that have used it think that they are doing a better job than they were doing with commodities. Yet now they have been rescinded from the study.

I guess what I am worried about is that some of your people in the Department who have a bias against this, I sincerely hope that they are not cutting off places like Boise that might come in with a good report. I would hope that you would investigate that possibility, and be sure that we are not getting the short shrift on this recommendation.

I yield to Senator Biden.

Senator **Biden**. I would like to follow up on that. Why, Mr. Secretary, is Boise being cut off?

Secretary **Block**. I did not know that they were, so I will check on that and find out for you what is going on.

Senator **Biden**. Mr. Dewhurst, do you know?

Mr. **Dewhurst**. Senator, I am not thoroughly familiar with the study, but the complicating factor in the studies has been how to treat so-called bonus commodities, that is commodities that the Department has in surplus which it is giving out to schools as in addition to their normal school lunch entitlements. The study was designed before we understood that we were going to be giving away all those commodities. The study was designed to test schools in three categories: schools using the traditional USDA commodity system, schools using a voucher system to buy commodities on the local market and schools getting cash from the Federal Government to do what they needed to do.

Senator SYMMS. You might be interested to know that I had breakfast yesterday morning with the nutritionist from the Oakland, Calif., school district. And this lady just cannot say enough good about the flexibility. She has not been saddled with commodities for which they have not programed. In other words, they buy from wholesale warehouses and use the great private distribution system that we already have. And I would only say if the studies have been interrupted because of emergency planning, it may just be that in the United States if we do have an emergency some day, heaven forbid that we do, but if we do have it, I think the private sector will have to participate in food distribution. The private food distributors are really the only people that have the capability to completely distribute food, feed the city of New York, for example, or Los Angeles or other places of that size. It would take the private sector to do it any way.

Secretary BLOCK. That is true.

Senator SYMMS. I repeat, let us do not sell this thing short, and certainly let us do not sell it short when we have a President that gives speeches about the virtue of the private individual in America who is able to do these things and take care of these problems. Then our own administration is seemingly resisting this advance.

Senator BIDEN. Mr. Dewhurst, did you want to continue to fill me in on the Boise situation?

SURPLUS COMMODITIES BEING PUSHED

Mr. DEWHURST. Well, I would just say the Senator is correct.

Ultimately a decision was made that even in the so-called all-cash schools that the bonus commodity would be provided in commodity form. In the appropriations bill for fiscal 1984, the Congress included a provision which asked the Department to spend an additional $6 million to extend the study through 1984 and provide all cash, including a cash equivalent of the bonus commodities to the cash schools. If the administration does not disagree with that—

Senator BIDEN. Does or does not?

Mr. DEWHURST. Disagrees with the extension of the study and the provision of cash in lieu of bonus commodities.

Secretary BLOCK. Are you saying we have all the commodities?

Senator BIDEN. Yes; I understand.

Senator SYMMS. You were saying you have a surplus of commodities and you want to push them out?

Secretary BLOCK. Yes; that is true.

Senator BIDEN. Mr. Secretary, I think I should not ask you anything more because you have just—I have not heard in the last two administrations any Secretary sit there and answer a question directly like you just did and say yes, it is true. I never heard a three-word answer from a Secretary of an Administration. I want to compliment you.

Senator SYMMS. Anybody that is a West Pointer and a runner, what else would you expect of them?

Senator BIDEN. That is true.

I do not want to delay you here because I know you are busy.

I would like, Mr. Chairman, to ask permission to ask two questions now and submit another four or five in writing if that is possible.[1]

Senator SYMMS. Yes.

AVIAN INFLUENZA

Senator BIDEN. What I am going to be submitting to you in writing will relate a little bit to one area that I would like to pursue at this moment and that is on the Eastern Shore of Maryland. And I am going to be very parochial, and in southern Delaware we have a poultry industry that we rely heavily upon. And fortunately it looks like through the good work of your department the Avian influenza is moving, because you moved so expeditiously on it, it looks like it is coming under control.

I want to publicly compliment you. You know, we are always talking about the bureaucrats who do not do the job. The bureaucrats that you all sent over to see me were very, very impressive and they really knew their stuff and they moved quickly. And I think things are moving along pretty well.

ONLY THE INTEGRATOR WILL BE RECOMPENSATED

But the concern that we have is if it hits on the Shore in a big way, which we do not anticipate it is going to do, we have a problem with the distinction made between the broiler industry and the nature of the poultry industry in our State, and that is almost everyone, the only person that will be recompensed would be the integrator, the Frank Perdue, everybody knows Frank Perdue of the industry. And the family that is on contract with Frank Perdue, Frank owns the chickens, or Mr. Allen Hatcher, they own the chickens, they own the chicks. And what happens, as you well know, they go out there and they are farmed out, in effect, to a local contractor to bring them up to the point where they go back to Frank and they are processed and sold.

Now, if we shut down because of the need to shut down Avian—because of Avian influenza, so we wipe out a chicken house or a series of them, we find that they will be recompensed based on the value of their birds at the point that occurs and that that will go to the owner of the birds. And the owner of the birds is the integrator. But that business, that chicken house, those series of chicken houses which cost, as you know, hundreds of thousands of dollars, they are shut down for a minimum of 30 and sometimes they can be shut down several months and there is no—there is no impact on them for the cost of, you know, the cost of doing business, the cost of keeping things going without producing any income, the loss that they suffer.

Is there any—and my question is this: Is there any consideration being given in the department to deal with, if in the future this occurs, to deal with that dilemma or do you even see it as a dilemma?

Secretary BLOCK. Senator, I certainly see it as a problem for those producers because, as you explained it, they do lose production during that period of time that their facilities are not operating. At the same time, I do not feel that it is the Federal Government's role to go ahead and try to figure out a way to compensate them also. There is some place you have to draw the line. We have indemnities that can be paid to the owners of the birds for their value because we are ordering the birds be destroyed. We are telling them that they have to do it, and they have no choice. But we do not support paying additional money to the people who suffer losses. I understand the problem, but we do not support it.

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[1] See p. 755.

Senator BIDEN. Well, just for the record, I imagine as time goes on hopefully we will not have to debate this very much because it will be a moot point. But in the event that it is not, I just want to indicate for the record that it is also Government decision to say that those houses cannot start up again. With good reason why. It is not like you shut them down and they can go back in business, you wipe out the flock and they can get back in business three days later with a new flock. They cannot do that.

And so it is not only the loss of the bird but what you are doing is you are shutting down the operation and I am not criticizing that. You have to.

So it seems to be——

BIRD OWNERS SHARE SOME COSTS

Secretary BLOCK. Some of the bird owners in those kinds of situations are sharing some of the payment with the farm operators. I think that that would be in the best interest of the owner of the birds because they want to keep those farmers in business and keep them out there raising birds for them so that they will have them in the future.

So that might work. I know it has worked in some cases.

Senator BIDEN. Well, again, I will hopefully not have to pursue that any more.

Secretary BLOCK. I hope you do not either.

Senator BIDEN. So do I.

I am going to submit some questions in writing to you relating to research cuts that are in the budget as I read the budget, and a few other things.[1]

GRACE COMMISSION

Let me conclude with a question relating to Mr. Grace, who I share the view of the Senator from Idaho. He was a lively fellow. I facetiously said, and after I thought about it, it was not facetious at all, that if he and Ted Turner ever got together in a room there would be two whirling dervishes.

Senator SYMMS. It would melt the grass.

Senator BIDEN. I asked him: Do you know Ted Turner?

He said, "No."

I do not think they should be the catalyst. They may take over the world.

But the Grace Commission made an important contribution toward eliminating waste in the Federal Government and in the case of the Department of Agriculture, came up with 154 specific recommendations which the Grace Commission says would save $13 billion over the next 3 years. Now, some of us are a little bit skeptical about to how accurate they are, not their intention but how accurate their assessments are about the various savings that they project Governmentwide.

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[1] See p. 755.

As it relates to the Department of Agriculture, they suggest that $13 billion is there to be saved.

Now, my question to you is, and if it has already been asked do not bother to repeat it, I will read it in the record.

What actions are you taking to implement the Grace Commission recommendations, what savings do you think are realistic and what not and what have you done so far to the extent that you have done anything?

Secretary BLOCK. Why, you tell him, Mr. Dewhurst.

THIRTY-ONE RECOMMENDATIONS BEING IMPLEMENTED

Mr. DEWHURST. The Grace Commission did a specific report on the Department which included 58 recommendations and then we are part of a lot of other recommendations.

Senator BIDEN. Right.

Mr. DEWHURST. With respect to the 58 in the report they did on the Department, we are moving to implement 31 of those recommendations. They tend to be the ones that can be implemented without legislative action. They are management improvements, cash management, consolidating administrative services and things of that nature.

The savings build up over time. The first savings built into the 1985 budget are about $200 million at the beginning of those initiatives. The savings in the remaining recommendations tend to be proposals which deal with fundamental policy with respect to the farm programs, with respect to the food stamp program and so forth. And those will have to be dealt with by the Congress, the administration and the farm bill and other legislation before we know what we are going to do with those things.

Senator BIDEN. For the record, it would be useful for us, I think, if you would not mind submitting to us in writing those 31 recommendations that you think have merit and that you have begun to deal with.

Mr. DEWHURST. Yes, sir.

[The following was subsequently supplied for the record:]

President's Private Sector
Survey on Cost Control

	Issue	Proposed Grace Commission Savings 1st Year	USDA Savings 1st Year
		($ in Mil.)	
AG 1 FmHA	- Promote loan graduation for each new FmHA loan booked	$232.0	- -
*AG 2 FmHA	- Management Information	.7	- -
AG 3 FmHA	- Move from Distrist lending to fixed amount guarantees and established a certified lender program	136.0	- -
AG 4 FmHA	- Transfer FmHA housing function to HUD:		
	Reduction in cost of borrowing	29.4	- -
	Reduction in National office personnel	2.4	- -
AG 5 FmHA	- Eliminate duplication with SBA:		
	Reduction in cost of borrowing	29.4	- -
	Personnel reductions	2.2	- -
*AG 6 FmHA	- Invest proceeds of supervised bank accounts	35.7	- -
*AG 7-1 FmHA	- Decentralizing cash collections	17.4	(7.0)
*AG 7-2 FmHA	- Decrease float in cash collections processing	8.2	(8.0)
*AG 8 FmHA	- Collect credit report fees	7.0	(1.0)
AG 9 FNS	- Update family makeup for Thrifty Food Plan	1,000.0	- -
AG 10 FNS	- Revise the Thrifty food Plan (TFP) economies of scale	252.0	- -
AG 11 FNS	- Eliminate the $10 minimum monthly benefit	41.0	- -
*AG 12 FNS	- Reduce cost of printing food stamp coupons	9.0	2.0
AG 13 FNS	- Eliminate overlap of the school lunch benefit	521.0	- -
AG 14 FNS	- Include Child Nutrition benefits in total family income	160.0	- -
*AG 15 FNS	- Reduce commodity distribution and warehousing costs	11.0	0.2
AG 16 AMS	- Poultry slaughter inspection	93.0	- -
*AG 17 AMS	- Meat/Poultry processing	8.0	3.5
AG 18 AMS/FDA/States	- Triplication of dairy inspections	1.5	- -
AG 19 AMS	- Prior approval of meat and poultry labels	1.0	- -
*AG 20 ACS	- User fees for publications and technical assistance	1.5	.3
	Foreign and Domestic Commodity Programs:		
AG 21	- Reduce anticipated crop support payments .	4,000.0 6,000.0	- -
AG 22	- Eliminate donations made to other agencies	364.0	- -
*AG 23	- Reduce anticipated export financing costs	58.2	- -

President's Private Sector Survey on Cost Control

	Issue	Proposed Grace Commission Savings 1st Year	USDA Savings 1st Year
		($ in Mil.)	
	Foreign and Domestic Commodity Programs (Con't):		
AG 24	- Phase out cooperative funding	37.0	- -
AG 25	- Eliminate P.L. 480 cargo preference compliance	108.0	- -
*AG 26	- Reduce P.L. 480 freight differential payments	12.0	25.0
*AG 27	- Transfer freight forwarding activities to private sector	2.5	- -
*AG 28	- Disband FAS's Ocean Transportation Division	.6	.1
AG 29	- Eliminate ERS/FAS/WAOB duplication of effort	6.7	- -
AG 30	- Reduce and reorganize representation in Europe	1.2	- -
AG 31	- Reduce U.S. Nationals secretarial pool	.4	- -
AG 32	- Reorganize Foreign Agricultural Affairs Division	a/	- -
AG 33	- Improve credit evaluation practices	b/	- -
*AG 34	- Use export promotion funds for interest-free loans	c/	- -
AG 35	- USDA county office structure	33.7	- -
AG 36 ASCS	- County office automation study	2.7	- -
*AG 37 SCS	- Reduce soil survey costs	10.0	- -
AG 38 SCS	- Soil survey user fee	4.0	- -
*AG 39 SCS	- Consolidate administrative staffs	2.4	-.5
*AG 40 ASCS	- County committee elections	7.8	5.9
*AG 41 FS	- Improve timber sales cash management	145.9	10.0
*AG 42 FS	- Improve timber appraisal methods	30.0	.5
*AG 43 FS	- Adopt lump-sum timber sales procedures	16.0	- -
*AG 44 FS	- Revise recreation fees	38.0	15.0
*AG 45 FS	- Increased firewood revenue	20.0	7.0
AG 46 FS	- Increase grazing fees	17.0	- -
*AG 47 FS	- Reduce road program expenditures	52.0	26.0
*AG 48 FS	- Improve data processing planning process	13.0	13.0
*AG 49 FS	- Restructure research activities	6.0	2.0
*AG 50 FS	- Reduce staffing levels	86.0	39.6
AG 51 SEA	- Create National Board of Agriculture	76.0	- -
*AG 52 ARS	- Reorganize the ARS	25.0	2.0

President's Private Sector Survey on Cost Control

	Issue	Proposed Grace Commission Savings 1st Year	USDA Savings 1st Year
		($ in Mil.)	
AG 53 ARS	- Transfer Human Nutrition Research Programs to HHS	15.0	- -
AG 54 CSRS	- Eliminate Funding for 21 programs	11.0	- -
*AG 55 ES	- Reduce and redirect the Cooperative Extension Service Washington-based staff	4.0	1.8
*AG 56 REA	- Reduce generation and transmission loans	3.0	- -
*AG 57 REA	- Reduce Government financing of cooperatives	40.0	(10.0)
*AG 58 REA	- Reduce regulation	1.0	- -
FCIC	- Reduce administrative cost and cost of claims by using private industry through reinsurance agreement	d/	- -
FCIC	- Revise financial management system	d/	- -
FCIC	- Actuarially sound premium rates	45.3	- -
	Total Savings	7,894.8	153.4

a/ No direct savings can be calculated; indirect savings will result from a more efficient, smoother running organization.

b/ Savings cannot be measured; loan defaults may be avoided with better credit analysis.

c/ No savings would result, but U.S. farm economy would benefit.

d/ Savings not quantified.

* Denotes changes under active consideration by the Department of Agriculture.

Senator BIDEN. Because one of the big problems we have—I should not say big problems—one of the problems which we have, there are certain things that everyone would agree constitute waste. We are both speaking of our senior colleagues here. My senior colleague has, I think, made a significant contribution in dealing with Defense Department questions in that he shows a little wrench that cost, you know, we can buy that in a hardware store for $1.39 and costs $9,000. Everyone agrees that is waste.

Then there is other things, that what is one man's waste is another man's social progress.

The Grace Commission report, if fully implemented, would in fact have the effect of shutting down, by the admission of Mr. Grace's personnel, shutting down a lot of VA hospitals.

Now, it may be cheaper not to have VA hospitals, but that is a very serious political, not just a partisan political, that is a serious question as to whether or not we agreed to spend money on veterans when it could be done cheaper to make it more convenient because of a deal that we cut with them. That may be, but that is not in the same category as the wrench.

My concern about the Department of Agriculture is that some of the recommendations of the $13 billion in fact are clear management savings, duplication in accounting systems and all the other things that you are seeking out and trying to eliminate and have, I suspect, in many cases. I tend to agree with the Senator from Idaho on his view about school lunch programs. I view that as a savings, potential savings but it is not waste in the same sense.

So that is why I am seeking to know what you think you can implement and what you think you cannot implement.

With that, Mr. Chairman, and your permission, I will submit approximately six more questions.[1] They are not tomes, I do not expect any long answers. They could be answered in a page or less. Six questions. As a matter of fact some could perhaps be answered in a word, but I would like to be able to do that for the record if I may and I thank you for your time.

Senator SYMMS. Thank you all very much. Thank you, Senator. The meeting is adjourned.

[Whereupon, at 11:33 a.m., the committee recessed to reconvene subject to the call of the Chair.]

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[1] See p. 755.

WRITTEN QUESTIONS FROM SENATOR KASTEN TO SECRETARY BLOCK AND THE RESPONSES

CABINET COUNCIL ON FOOD AND AGRICULTURE

Question: Mr. Secretary, in January, President Reagan and you met with the farm leaders at the White House to discuss farm policy and it's future.

At that time, President Reagan announced that he was charging the Cabinet Council on Food and Agriculture, which you chair, to conduct a comprehensive review and assessment of current food and agriculture problems.

Would you bring the committee up to date on the actions of the council?

What are your primary goals and objectives?

Will the council be soliciting input from outside groups, i.e., farm organizations?

Will any field hearings be held to gather needed information?

Answer: On January 9, 1984, we established the Cabinet Council Working Group on Future Food and Agriculture policy. The Working Group is chaired by the Deputy Secretary of Agriculture and consists of high-level officials from the Departments of State, Treasury, Interior, Commerce, Transportation, the Council of Economic Advisors, the White House Office of Legislative Affairs and the White House Office of Policy Development. The Executive Secretary of the Cabinet Council on Food and Agriculture serves as the executive director of the Working Group. To date, two meetings have been held by the Working Group. The mandate for the Working Group is three-fold: to review and assess current farm programs; institute a dialogue on the future course of food and agriculture policy with interested parties inside and outside of Government; and to prepare a list of food and agriculture policy options for 1985 for consideration by the Cabinet Council on Food and Agriculture. We view this as a long-term effort in which we will spend many months gathering information and views to be used in the development of options and alternatives for consideration in the upcoming farm bill.

In order to facilitate the development of basic factual information, the Working Group will be supported by the following subcommittees composed of representatives of interested agencies and departments:

- Farm Commodity Programs (chaired by the Assistant Secretary for Economics, USDA);
- International Trade and Foreign Food Assistance (chaired by the Under Secretary for International Affairs and Commodity Programs, USDA);
- Resource Conservation (chaired by the Assistant Secretary for Natural Resources and Environment, USDA);

- o Research (chaired by the Assistant Secretary for Science and Education, USDA);
- o Farm Credit and Rural Development (chaired by the Under Secretary for Small Community and Rural Development, USDA); and
- o Feeding and Nutrition Programs (chaired by the Assistant Secretary for Food and Consumer Services, USDA).

The basic responsibility of the subcommittees will be to develop detailed, factual background papers to focus the dialogue on future food and agriculture policies in areas of greatest significance. The papers should create a factual base from which to evaluate the forces shaping U.S. and world agriculture. For example, the subcommittee on farm commodity programs would develop background material on the structure of each basic commodity industry, including production characteristics, supply/use trends, market development trends, history of government programs and the overall importance of the commodity in the U.S. and world economy. The subcommittee on international trade and foreign assistance would provide a profile of U.S. agriculture trade patterns to identify the key factors responsible for the current state of U.S. export markets. Similar factual papers will be prepared on credit programs, rural development programs, feeding programs, conservation programs and research. Subcommittee chairpersons may wish to invite expert subject matter specialists to develop background papers or make presentations to the subcommittees in the more complex and controversial areas identified during the internal Working Group review.

The subcommittee's background papers will be reviewed by the Working Group and released to the public as a basic educational document to facilitate an informed dialogue on farm program and policy options. The papers will contain no recommendations but will serve to present the issues in a factual context. The papers should be completed by the end of June.

In July through October, the subcommittees will provide an opportunity for a more detailed exchange of views on identified topics. Members of Congress, leaders of major farm organizations and commodity groups, representatives of key related industries such as fertilizer and machinery, consumer representatives and other subject matter experts will be invited to participate in these roundtable discussion sessions to further delineate the problems and options facing agriculture.

These discussions will be focused on the broad issues which affect all subsectors of the food and agriculture system. For example, in the area of commodity programs, the focus would be the impact of a selected policy tool, such as loan rates, on farm income, grain prices, livestock returns, consumer prices, exports and trade share. Concerning field hearings, each subcommittee chairperson is responsible for determining the need for such hearings based on their specific area of focus and related objectives. Within this framework, if such a determination is made, the number and location of the field hearings will then be established.

MONETIZATION ISSUE

Question: There has been interest expressed in the issue of monetization - the ability to sell donated goods abroad to stimulate currency for local projects and development.

For example: Donations of surplus dairy goods, as authorized by Section 416 of the 1949 Agricultural Act, could be sold in a third world country and the local currency could be used to assist in local transportation of the goods or development of agricultural businesses.

This in turn, would enhance the prospects for moving surplus products out of storage while aiding least developed countries. Economic development would ultimately lead to market development of agricultural products.

To what degree, would you be supportive of monetization legislation?

Answer: As you know this subject has received considerable attention during the last several months. Within the Administration we have also discussed this, seeking to have a clear understanding of all the ramifications of such sales from both a development and trade perspective. We are continuing this discussion and hope to be holding further discussions on this subject with interested members of Congress.

COMMODITY DISTRIBUTION PROGRAM

Question: In January, you addressed the American Farm Bureau Federation during their national meeting in Orlando, Florida.

At that time, you stated that you wanted to achieve a better understanding of your commitment to feeding the needy, but that public perception seems to be that less food is being provided. You concluded by saying that, "That simply is not true".

Why then has USDA put a cap on the amount of surplus dairy products being distributed to the unemployed and needy?

The cap is as follows per 50 States per month

25	million	lbs.	processed cheese
10	"	"	natural cheese
10	"	"	butter
5	"	"	nonfat dry milk (NFDM)

Answer: As required by the Temporary Emergency Food Distribution Act (Public Law 98-92), the Department recently announced the amounts and types of commodities to be distributed in FY 1984. The announced amounts are not a cap but are based on processing feasibility and, as required by P.L. 98-92, an analysis of the potential for commercial displacement. The Department is currently making the following commodities and amounts available on a monthly basis to States for household distribution:

Cheese	35 million pounds
Butter	12 " "
Nonfat Dry Milk	8 " "
Honey	5 " "
Corn Meal	3 " "
Flour	5 " "

In addition to these allocated commodities, the Department is making bulk cheddar cheese and nonfat dry milk available to the States for State's processing into packages for households. The cost of this processing is paid in part by the Department. States can order as much of these bulk commodities as they can have processed and can use without waste.

The Department believes that the levels announced for distribution in FY 1984 are reasonable and will avoid any significant impact on commercial sales.

DAIRY DISTRIBUTION

Question: Let me give you an example to help make my point.

Last week, CCC purchased 15 million pounds of NFDM. This was one week of purchases. Yet all 50 States must split 5 million lbs. among them per month for distribution. That is the cap placed on this commodity.

Simple arithmetic shows that in one month CCC will buy 60 million lbs. of NFDM, give away 10 million lbs., leaving 50 million lbs. in storage.

As we paid approximately $58.1 million in storage costs last year for these products, don't you believe it would be cheaper in the long run to move these stocks out to the public?

Answer: Making the surpluses available to the needy is not simply a matter of cost or just releasing these stocks to local jurisdictions for distribution. The problem associated with the needy receiving dairy products is the bulk form storage of CCC-owned surplus dairy products. Most surplus dairy products are stored in 68-pound blocks of butter, 40-pound blocks or 500-pound barrels of cheese, and 50-pound bags of non-instantized nonfat dry milk--NFDM. As discussed previously CCC or the States must contract with processors to cut down these bulk commodities into consumer-size packages for distribution to the needy. In addition, if the distribution program results in more commodities being purchased by the government and subsequently stored, no savings in storage costs result.

Question: In my home State, calls for emergency food last year increased 500% from 1981. The majority of callers for food were between the ages of 21 & 40 and had an average family size of 4.

Mr. Secretary, I am not saying that surplus dairy products will cure all hunger problems in the U.S., but with what we have in storage (1.2 billion lbs. NFDM) and constituents relating further need for these commodities, why not release more?

Answer: States can increase amounts of products available for distribution to households by entering into processing contracts locally. States can order as much bulk cheddar cheese and non-instantized nonfat dry milk as they can have processed locally for household distribution. States will be reimbursed 12.5 cents per pound for cheese and 14 cents per pound for nonfat dry milk for transportation and processing costs. These amounts are the same as USDA incurs in transforming these commodities into more usable forms.

WRITTEN QUESTIONS FROM SENATOR BIDEN TO SECRETARY BLOCK AND THE RESPONSES

FOOD PROGRAMS

Question: The proposal has been made that Federal food assistance programs be converted into a block grant to "give States an opportunity to craft programs appropriate to their own needs." However, it seems to me that nutritional needs are pretty similar whether you are in Delaware, Illinois or Oregon. The need for a national nutrition policy was recognized as early as the 1940's when the school lunch program was strengthened to provide 1/3 of the Recommended Daily Allowance for Vitamins, etc. That, I am told, is because a great many of the men showing up for military service were anemic. Thus, there is a certain "national security" element to all this: IN YOUR VIEW, DOES IT REALLY MAKE ANY SENSE TO HAVE 50 DIFFERENT NUTRITIONAL POLICIES IN THIS COUNTRY?

Answer: This is a nation of great diversity. As a result, there is all too often a "mis-fit" of Federally mandated programs to unique local and State circumstances. This reality demonstrates the need for a block grant option. Of course, the virtue of an option lies in the fact that it allows States a basic choice. States which choose not to exercise the block grant option may retain the Federal programs. Even if only one State exercises the option, we believe it is important for the choice to exist.

What we are talking about in discussing these proposals is usually the mechanism for delivering benefit payments to our low income citizens. We believe that all one has to do is examine the food stamp program itself and the need is apparent. Almost $1 billion annually is misspent in the program. That is a tremendous amount of waste, and we are aggressively moving to reduce it. In fact, as of the last reporting period we have the lowest error rate in the history of the program. We are proud of that accomplishment and striving to lower it even further. Beyond this, however, we need to examine alternative methods for delivering benefits. And the block grant approach is one of them. You can provide the same level of benefits or more to the eligible population, while greatly reducing the federal red-tape involved. It is not a question of fifty different nutritional policies, but rather the most efficient and effective way of providing assistance to those most in need.

Question: The Center on Budget and Policy Priorities released a report last year showing a 50% increase in people being served by food pantries and a 33% increase in people served by soup kitchens. I spoke recently with Brother Ronald Giannone who runs an operation in Wilmington, Delaware providing meals to the poor and homeless. He said that he served twice as many people in 1983 as in 1982, and that the trend is continuing this year. IS BROTHER RONALD'S EXPERIENCE TYPICAL FOR THE NATION AS A WHOLE?

WHO ARE THE PEOPLE ACCOUNTING FOR THE INCREASE?

Answer: Since we do not directly administer food pantries or soup kitchens, we do not routinely collect information about them. Thus, we cannot say if participation in emergency food programs increased in 1983, nor can we describe the characteristics of recipients on a national basis.

We do know that these locally-run organizations and their clientele vary considerably. Although some, such as Brother Ronald Giannone, have reported increased emergency food program participation in 1983, these reports have not been conducted in a nationally representative fashion.

Nevertheless, it should be noted that we do respond to local emergency food needs by donating USDA commodities through the Temporary Emergency Food Assistance Distribution as well as helping through our other food assistance programs. We donate commodities to States who allocate them to qualified local outlets. In Fiscal Year 1983, we provided almost a billion dollars worth of food through the Temporary Emergency Food Assistance Distribution.

Question: The Commission on Hunger chaired by J. Clayborn LaForce recommended a number of improvements in the Food Stamp Program including an increase to cover 100 percent of the "Thrifty Food Plan," extending food stamp benefits to all homeless, and raising the value of the assets beneficiaries are permitted to own. WHAT ARE THE CHANCES THE ADMINISTRATION WILL TAKE THIS GOOD ADVISE AND SUPPORT THESE IMPROVEMENTS?

Answer: The Department is considering all of the recommendations of the President's Task Force very carefully. Decisions on some of these proposals have not yet been made. We have already taken several steps to implement proposals that do not require legislative changes. For example, we have reinforced the existing policy of ensuring Food Stamp Program eligibility for the homeless and encouraged States to find ways to assist the homeless through the Department's programs. We have also encouraged States to stagger the delivery of food stamp benefits throughout the month to the maximum extent possible.

Question: Everyone I talk to, regardless of their over-all view of nutrition programs, seems to think a major reason why program recipients run out of benefits before the end of the month, or buy foods that are not of very high nutritional value, is that they are not educated. Yet, the administration has always advocated cuts in nutrition education programs. DO YOU BELIEVE NUTRITION EDUCATION HAS A ROLE TO PLAY IN MAKING THESE PROGRAMS MORE EFFECTIVE? HOW WOULD SUCH A PROGRAM BE STRUCTURED?

Answer: Yes, I do believe that nutrition education has a role to play in making the Department's food assistance programs more effective. The Food and Nutrition Service (FNS) has always developed and disseminated educational materials for low-income food program participants on buying and preparing more nutritious and economical meals. In addition to these ongoing activities the Department conducted workshops for nutrition professionals and community service organizations in one major city in each of the seven FNS Regions in Fiscal Year 1983.

These Making Your Food Dollars Count workshops introduced new USDA meal plans, provided information on thrifty shopping and showed workshop participants how to use sample meal plans in counseling low-income consumers. As a result of this Departmental effort, many State and local agencies are now conducting similar workshops with assistance from Regional FNS nutritionists. A booklet for low-income consumers on shopping tips and sample meal plans was also distributed through State agencies.

In response to suggestions received from workshop participants, we initiated another project in Fiscal Year 1984 which is designed to facilitate continuing nutrition education efforts by State and local agencies. The objectives of this project are to: 1) develop single concept, low-literacy print materials and accompanying audio-visual materials 2) work with State and local agencies and community groups to improve the distribution of these materials to low-income consumers and 3) encourage more local nutrition education efforts.

In response to your second question, we believe the appropriate Federal role in nutrition education is to be a catalyst, as illustrated in the two projects just described. We can provide materials, expertise and encouragement, but effective nutrition education activities must be planned and conducted at the local level. We do not believe that it would be effective or approriate to have Federally administered nutrition education programs operating at the local level.

COMPETITIVE GRADUATE FELLOWSHIPS

Question: One program that has been eliminated in the 1985 Executive Budget Request is the Competitive Graduate Fellowships.

Background Information: It is estimated that 30% of the country's agricultural faculty may be eligible for retirement in the next 5-10 years. Faculty not only instruct, but also lead or conduct much of the basic research that is done at universities and colleges around the nation.

Last year only 1,000 Ph.D.'s were graduated from American schools, and over 300 of these were foreign nationals who returned to their home country. If this country is to be able to replace departing faculty, it must plan ahead. It takes many years to train a Ph.D. student, and ones that are entering the graduate program this year are not available next year as in master's programs. In fact, ones that are entering now may be the ones who start to replace the faculty who are eligible to leave in a few years.

The Program: Last year a $5 million Competitive Graduate Fellowship program was established to encourage agriculture students to go after advanced degrees and keep their talents in agricultural-related studies. This year, the budget request contains no money for the program. (The people you met with last Tuesday from the Extension Service were part of an education group that would like the amount in the fund doubled from last year's appropriation to $10 million.)

What is the reason for the sudden withdrawal of funds?

Answer: Budgetary constraints have not permitted the Department to request funding for enrollment stimulation via graduate fellowships. The Department does, however, recognize the importance of stimulating the development of agricultural expertise. Furthermore, we believe that there are a variety of methods available to us to assure an adequate supply of scientific and professional expertise in the food and agricultural sciences.

Question: How are we supposed to remain a leader in agriculture when we have a shortage of qualified people to work in basic research?

Answer: Separate funding exclusively for a Competitive Graduate Fellowships Grant program designed to attract students to particular disciplines is not proposed in FY 1985. However, based on previous experience, about one-quarter of the proposed $50 million funding level for CSRS Competitive Research Grants are likely to be used for support of research assistants.

In FY 1985, the Administration also proposes to replace the Morrill-Nelson program with a new $2 million program specifically to strengthen the historically black 1890 Colleges and Universities, Tuskegee Institute and the University of the District of Columbia.

Question: How does this action mesh with the following quote from Executive Budget: "Agriculture research programs help to increase productivity by developing new knowledge about crops and animals. Federal agricultural research will continue to place higher priority on long-term basic research with potential for high payoff."

Who will do this "high payoff" basic research if we quit encouraging our best agriculture students to continue their studies?

Answer: The Department will indirectly support many graduate students through the $50 million funding level proposed for Competitive Research Grants in the Cooperative State Research Service budget. Recent data indicates that about one-quarter of Competitive Research Grant funds are used to hire graduate and post-graduate students to assist in the research.

BUDGET REDUCTIONS

Question: As you know, the President has urged Congress to join him in seeking reductions in the deficit. He has indicated that everything should be negotiable. DO YOU HAVE ANY RECOMMENDATIONS FOR DEFICIT REDUCTION MEASURES IN THE DEPARTMENT OF AGRICULTURE'S BUDGET BEYOND THOSE IN THE PRESIDENT'S BUDGET?

Answer: The Department of Agriculture's budget for FY 1985 is fair and equitable.

ANIMAL DISEASE RESEARCH

Question: The Department of Agriculture has proposed a reduction of $5.8 million in funds for the Animal Health and Disease Research Program. This will eliminate all funding for this program that permits States to conduct research in areas of interest to agriculture in each State. The Department also proposes to reduce Special Research Grants program from $25 million to $15 million. While Competitive Research Grants have been increased, this does not make up the reductions in other programs. In the light of the lack of knowledge that has surrounded the recent outbreak of Avian Influenza, why have funds for research on animal disease been reduced?

Answer: In the development of the fiscal year 1985 budget all current programs as well as new initiatives were reviewed and evaluated within prevailing tight budget conditions. No funding is proposed for the Animal Health and Disease Research, Section 1433, formula program. However, continued support is provided for the concentrated efforts in solving a number of highest priority problems of animal health under the CSRS Special Research Grants program. In addition, strong support for animal health and disease research will continue under the Hatch Act and the Evans-Allen Colleges of 1890 and Tuskegee formula funded research programs in the cooperating State institutions. An increase of $4.5 million is proposed for Competitive Research Grants for animal science research. Under this program, research will be supported on basic physiological mechanisms involved in animal performance and reproduction, including diseases.

The Agricultural Research Service has approximately $52 million in animal protection research. The 1985 proposed increases for ARS include $600,000 for research in the animal protection area.

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VOLUME IV FOLLOWS